

**RETAIL LAND DEVELOPMENT PROCESS  
IN LARGE CITIES SCALE IN TURKEY : CASE  
EXAMINATION**

**M.Sc. Thesis by  
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**Programme : Real Estate Development**

**JUNE 2010**



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**JUNE 2010**



**TÜRKİYE’DE BÜYÜK MERKEZLER ÖLÇEĞİNDE PERAKENDE ARAZI  
GELİŞTİRME SÜRECİ : ÖRNEK İNCELEMELERİ**

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## **FOREWORD**

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I dedicate my thesis study to the great leader and sunshine of Turkey, who provided Turkish youth a future vision and freedom;

**Mustafa Kemal Atatürk.**

June 2010

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## **ABBREVIATIONS**

<b>SPV</b>	: Special purpose vehicle
<b>F.A.R.</b>	: Floor area ratio
<b>GCA</b>	: Gross construction area
<b>GLA</b>	: Gross leasable area
<b>GBA</b>	: Gross building area



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## **LAND DEVELOPMENT PROCESS IN LARGE CITIES SCALE IN TURKEY : CASE EXAMINATION**

### **SUMMARY**

With one foot in Europe and the other in Asia, Turkey is one of the great melting pots of peoples, cultures and religions. Its 70 million to 75 million inhabitants live at once in a fabled past, a pulsating present and a future of fantastic promise.

Turkey has an attractive, large population but a highly fragmented retail market and the urban society is increasing. There is a long-term potential for investment in the country.

The purpose of the study is to examine the land development process on specific criterias, in order to conclude the subject of the differences of this process upon the growth scale of the cities. Especially the “large cities” are the focus of the work. Adapazarı, Denizli and Diyarbakır are the chosen countries varying for scales of large, middle and small due to the economical facts.

The introduction is given in the first section. In the second section, the literature background is explained. This part of the study includes the meaning of retail, shopping centers, land development process in raw land and for retail properties. Proceeding this subject, the types of shopping centers and the differences in development process for them are observed.

In the third section, changes in retail development in Turkey after 80's are explained. The beginning of retailing in Turkey, the first shopping center, the evolution of the sector and the current situation are the basic subjects. The fourth section includes case studies. In this section, three cases are examined. These cases are the selected shopping malls located in Diyarbakır, Adapazarı and Denizli. The last section provide conclusions and recommendations.



## **TÜRKİYE’DE BÜYÜK MERKEZLER ÖLÇEĞİNDE PERAKENDE ARAZİ GELİŞTİRME SÜRECİ : ÖRNEK İNCELEMELERİ**

### **ÖZET**

Türkiye, bir ayağı Avrupa, diğeri Asya’da bulunan ve insanların, kültürlerin ve dinlerin erime potasıdır. Efsanevi bir geçmişe, heyecan uyandıran bir şimdiki zaman ve fantastik bir geleceğe sahip şehrin 70 ila 75 milyon arasında sakini bulunmaktadır.

Türkiye, çekici ve büyük bir nüfusa sahip olup, kentsel nüfusu artmakla birlikte oldukça eksik kalmış bir perakende pazarına sahiptir. Bu durum, ülkeyi uzun vadede oldukça potansiyel taşıyan bir konuma getirmektedir.

Bu çalışmanın amacı, değişik şehir ölçekleri göz önünde bulundurularak, belirli kriterler kullanılarak arazi geliştirme süreçleri üzerinde ne gibi farklılıklar olduğunu ortaya koymaktır. Büyük merkezler bu çalışmanın amacı kapsamında özellikle seçilmiş ve değerlendirilmiştir. Adapazarı, Diyarbakır ve Denizli ekonomik özellikleri bakımından küçük, orta ve büyük ölçekli gelişim merkezleri olarak tespit edilmiştir.

Tezin ilk kısmı giriş bölümüne ayrılmıştır. İkinci bölümde, literatür incelemesi yapılmıştır. Perakende, alışveriş merkezi, ham arazi ve ticari arazi geliştirme süreçleri kavramsal olarak açıklanmıştır. Bunu takiben, alışveriş merkezleri çeşitleri ve bu çeşitliliğin gelişim süreçlerindeki farklılıklar anlatılmıştır.

Üçüncü bölüm, 1980’ler sonrası Türkiye’de perakende sektörü ve alışveriş merkezlerinin gelişimini anlatmaktadır. Türkiye’de perakendeciliğin başlangıcı, bu süreçte yer alan firmalar, ilk alışveriş merkezleri, sektörün gelişimi ve mevcut durumdan bahsedilmektedir. Dördüncü bölüm, örnek alan çalışmalarını içermektedir. Bu örnek alanlar Diyarbakır, Adapazarı ve Denizli’de konumlu seçilen alışveriş merkezleridir. Tezin beşinci bölümü sonuçlar ve öneriler kısmına ayrılmıştır.



## 1. INTRODUCTION

The value to own a piece of land has been precious since the humanity met ownership. This is the reason why ownership and the related cases became a trade branch in time. The behaviour for shopping was to buy the needs. Residences, offices, retail parks, logistics and shopping centers especially are the modern face of land progression in our time. This work has a wide research on land development process in retail sector.

The intention of this study is to provide background for more detailed examinations of land development processes and trends. Retail development takes place broadly as the result of demand from two sectors of the service economy. One source of demand is the property investment industry and the second and most obvious source of demand is the retail firms themselves. A typology of retail locations is introduced as well as its relationship with the shopping center types in the thesis study.

The scope of the study includes the detailed examination of some retail development projects which are realized upon some basic criterias. In the conclusion, the thesis aims to state the advises for developers in order to choose the best development type for a shopping mall investment. These criterias are simply defined as acquisition of land, land identification and feasibility, the deal progress, agreements, drawings&concept design, finance of the project, construction, leasing, operations (centre management and marketing). Three different shopping mall development cases are chosen evaluating the socio-economical scale of the cities they are located in, and these cities are especially examined for their potential for growth. The three cities are Diyarbakır, Adapazarı, and Denizli. Diyarbakır is chosen for it has the most potential for growth and yet there is just one shopping center in, Adapazarı is the middle-class city for growth potential yet there are many shopping center developments and have a certain growth already and Denizli is the most developed and saturated city through these three cities and the criterias for a shopping mall development in the city have a weight on different criterias than the other two.

The aim of thesis is to define whether there are differences in development steps for some certain type of shopping centers especially examining the location of the project and the related criterias. In this process, the types of shopping centers and the sector in Turkey and the historical evolvement of the shopping centers are researched also. The findings of thesis contribute to developers in order to choose the best development type for a shopping mall investment.

### **1.1 Purpose Of The Thesis**

The aim of the thesis is to examine the short term and long term effects of its planning and land development in retail sector by searching the differences in development steps and reasons of these differences.

When doing the search, the case study locations are chosen carefully in order to delegate three different potential; emerging market, middle-class developed market and developed market upon socio-economic criterias. Diyarbakır, Adapazarı and Denizli are chosen especially to stand for the mentioned factors.

The specific criterias are pointed out in the research study part of the thesis in order to examine the case studies on same basis to conclude the differences between them. The contribution of the thesis is to summarize some advises for the potential development projects in the close future in order to minimize the costs for locational and development steps factors.

### **1.2 Background**

For the land development process, there is not any detailed work to demonstrate the investors the way to reach the nearest form of the risk-free projections. There are so many researches done on the land development subject but these works are just done to illustrate the current general processes or case studies on specific projects.

This detailed thesis work on land development process aims to show the analytical comparisons between the various forms of land development by analyzing the “retail development process” and helps the developers to find out the efficiency of development forms on various type of cases; and also finds out the answer to “does

the land have the right zoning for its highest and best use for development in that region?”.

The background of the thesis consists of case studies on three shopping centers in Diyarbakır, Adapazarı and Denizli that accomplished their development process. The comprehensive research on retail sector and its complementary element shopping centers, the steps and processes of raw land development and extensive study on every single step in the development process alternatively.

### **1.3 Hypothesis**

The development cost of retail land is dependent on cost factor on city basis.

There are differences in land development process in retail projects according to social-economical level of cities and this factor affects the development cost.





## **2. CONTENT & METHODOLOGY OF THE THESIS**

Content and methodology of the study involves academic researches, case studies, contemporaray articles, legal documents and facts related to retail land development process.

### **2.1 Land Development Process**

Land development process consists of finding a raw land to develop, doing surveys, feasibility studies, gathering necessary networks and connections through the public organizations together, the designs of alternative projects, market surveys, finding the necessary financial sources, working with the contractors and the sale of the developed land or the project on the land and their management. (Dasso and Ring, 1989; Wiedeme, 1994).



**Figure 2.1** : Planned piece of land.

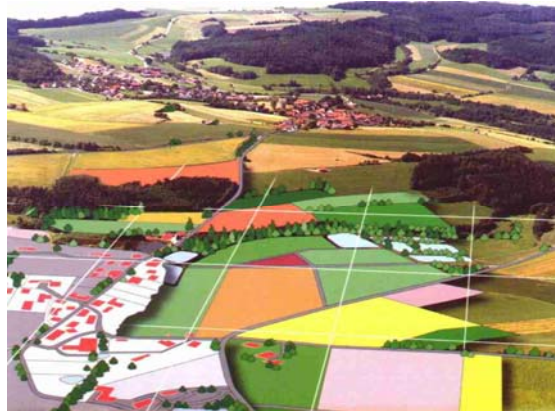
As population increases and available land becomes more scarce, land development becomes increasingly challenging. There are more government regulations and

impact fees today than ever before, plus a host of local restrictions that make development difficult.



**Figure 2.2 :** Raw land, landscaping process.

Developers are the coordinators of the activities, converting ideas on paper into real property. They create, imagine, fund, control and direct the process of development from the beginning to the end.( Guy, 1994)



**Figure 2.3 :** Development planning phase.

Developers usually take the greatest risk in the creation or renovation of real estate and receive the greatest rewards. Typically, developers purchase a tract of land, determine the marketing of the property, develop the building program and design, obtain the necessary public approvals and financing, build the structure, and lease, manage, and ultimately sell it.

No single path leads automatically to success in land development. Developers come from a variety of disciplines--real estate brokerage, mortgage banking, consulting, construction, lending, architecture, legal services, planning among others. Recent specialized programs that award a “Master of Real Estate Development” degree are also available.

Assembling a team of professionals to address the environmental, economic, physical and political issues inherent in a complex development project is critical. Success of developers depend on the ability to coordinate the completion of a series of interrelated activities efficiently in appropriate time.



**Figure 2.4 :** Unplanned land development.

The development process requires skills of many professionals: architects, landscape architects, and site planners to address project design; market consultants to determine demand and a project's efficiency; attorneys to handle agreements and government approvals; environmental consultants and soils engineers to analyze a site's physical limitations and environmental impacts; surveyors and title companies to provide legal descriptions of a property; and lenders to provide financing.(Shaw, 1987) There are a few types of development out of the legal outline. Purchasing unused land for a potential development is an example and generally called as “speculative development”.

Land assembly is the principal mechanism by which communities are developed. Technically, subdivision describes the legal and physical steps a developer must take to convert raw land into developed land. Land assembly is a vital part of a

community's growth, determining its appearance, the mix of its land uses, and its infrastructure, including roads, drainage systems, water, sewerage, and public utilities.

Many factors have to be executed in order for a land development process to be successful. These components can be listed as location, planning, timing for marketing, stating the marketing targets precisely, the power of financing, financial structure, compliance of the construction costs and the planned schedules, well management, a healthy economy, the art of reconsiliation, qualified services, adequate conditions and finally luck. (Zuckerman & Blevis, 1991).

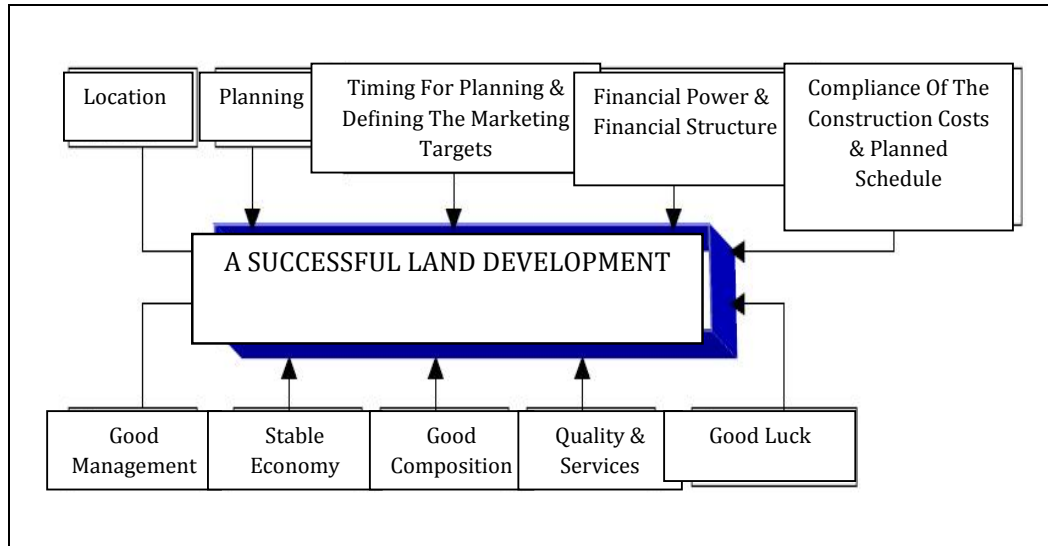


**Figure 2.5 : Land development.**

The location of the property is the most important and vital factor for a development process to reach success. A land represents different levels of importance according to the developer's aim.



It is impossible for a development project to be successful unless there is not a detailed plan. Planning process starts with the idea of the development and continues up to the sale of the properties and management. (Fig.2.6)



**Figure 2.6 :** Required components for a succesful development.

Timing for marketing and defining the right marketing strategy are extremely important. There are examples of projects that failed only because of wrong marketing strategies and wrong timing. Reasons such as inflation, crisis, rise in the rates or the disharmony of the investor with the competitive environment effects the conclusion of the development process directly.



**Figure 2.7 :** Town planning example.

Every successful development process have target, objective, goal and a well organized marketing plan to reach the target audience. A very limited part of the investors wait for the customers to find and support their project. Proceeding the market surveys, a marketing plan is composed including the number of properties that meet the needs of the target market and the cost of the construction. The right project in the right time is one of the most important component of a successful land development. (Floyd&Allen, 2002)

Several projects fail because of the inadequate finance or it takes more time to complete the project than planned before. Also, many developers lose their projects or their reputation because of the financial problems. It is vital for a project to be completed successfully by taking into consideration in advance that extra expenses or a potential crisis may occur.

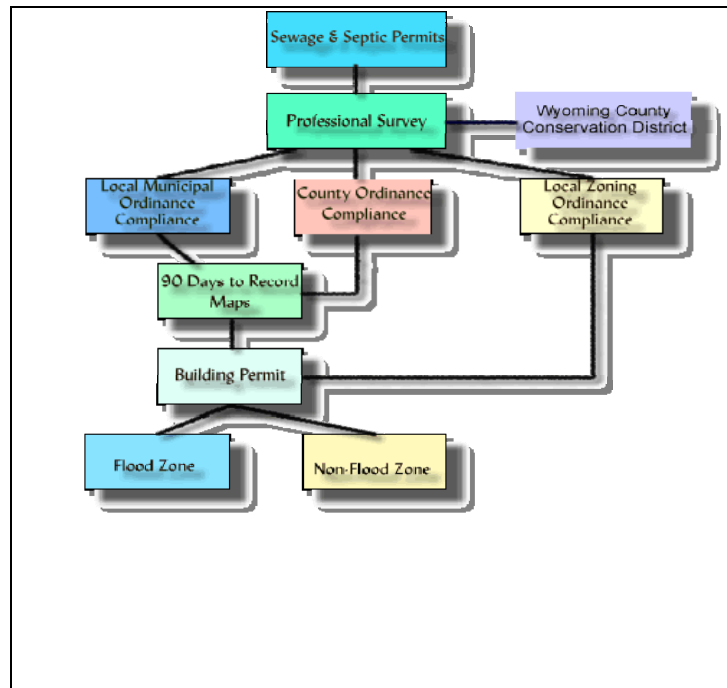
A well organized financial package covers the macro profile of the development process. The less debt cost provides more profit for the developer. The most fundamental factor to minimize the probable risks is the financial structure.



**Figure 2.8 :** Land development map sample.

Without a careful auditing, there may be a gap between the expected construction costs and the realized construction costs. In many projects, this is an encountered situation. The main reasons for this kind of situations are the overlook of the topographical structure of the land, the rise in the cost of construction supplies and deficiency of forecasting the costs. In order to prevent the deficiency, the cost of supplies and the potential outputs have to be examined. The crew must look for minimizing the costs during the construction process. Besides, compliance of the control of construction costs with the planned construction Schedule is important.

Deviation from timing cause loss of cash and deviation from timing for completion of construction cause loss of revenues from the sales.



**Figure 2.9 :** Components of land development for a certain region.

The developer has to control the process tightly. In many cases, the gap in management affects the success negatively. The developer must have a good relation with the parties involved in the process.

Aiming to realize a development project in an inconvenient environment increase the risk premium, in other words increase the probability to fail.

Good luck is the invisible component of a land development process. Economical instability and unforeseen sudden conflicts may cause the process to fail. (Shaw, 1987)

In general, land development is the riskiest but most profitable technique as it is so dependent on the public sector for approvals and infrastructure and because it involves a long investment period with no positive cash flow. After land assembly is completed, the developer usually markets the land to a home builder or other end user, for such uses as a warehouse or shopping center. In any case, use of spatial intelligence tools mitigate the risk of these developers by modeling the population

trends and demographic make-up of sort of customers a home builder or retailer would like to have surrounding their new location.

Land developers usually develop four types of land. These are residential, commercial, industrial and mix-use plots. Many developers prefer to develop both land and project on the developed land such as houses, apartments, storages, etc. (Peiser and Schwanke, 1992) They perceive the development as a whole although there are two different type of development in it; land and the project. In fact, these two types are completely different from each other and each of them have to be analyzed in its own environment and criteria.

Land development covers the process from the acquisition of the raw land to the marketing of the products having infrastructure, assembled according to the zoning plans. The most effective process includes both land and project development; which are analyzed separately.

## **2.2 Raw Land Development**

Land development process could be examined on three phases. First phase is the passive one and this phase can be named as “raw land”. Second phase is development phase. The third and the last one is the aligning of land pieces in harmony with the current zoning plans and maturing the plots for construction.



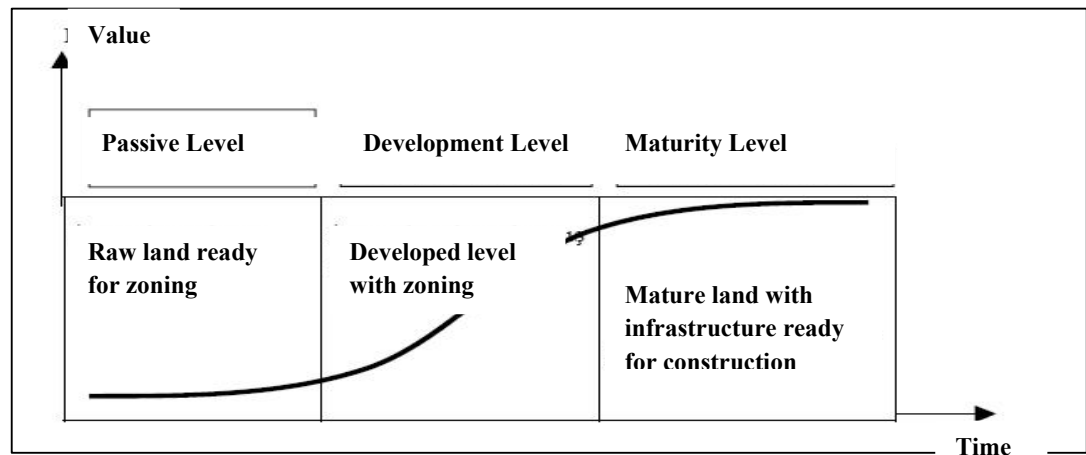
**Figure 2.10 :** Landscaping process.

Assembly of land is the principal mechanism by which communities are developed. Technically, subdivision describes the legal and physical steps a developer must take to convert raw land into developed land. (Fig. 2.11)



Assembly is a vital part of a community's growth, determining its appearance, the mix of its land uses, and its infrastructure, including roads, drainage systems, water, sewerage, and public utilities.

In general, land development is the riskiest but most profitable technique as it is so dependent on the public sector for approvals and infrastructure and because it involves a long investment period with no positive cash flow.



**Figure 2.11 :** Period of land progress.

After land assembly is complete, the developer usually markets the land to a home builder or other end user, for such uses as a warehouse or shopping center. In any case, use of spatial intelligence tools mitigate the risk of these developers by modeling the population trends and demographic make-up of sort of customers a home builder or retailer would like to have surrounding their new locations. (Sönmez, 1992 )

**Step One:** Professional Land Developers spend a great deal of time seeking what is called the "*Path of Growth*". They research economic and population projections and key factors such as job creation trends to identify geographic areas with favorable growth outlooks. Then, they drill down to the community and neighborhood levels to determine the directions of future growth and new construction.

To do this expertly requires a seasoned research team and a network of external contact including local government officials, business leaders, real estate brokers, builders, etc. to conduct this 'due diligence' process and help locate possible raw and



**Figure 2.12 :** A sample logistics land development.

undeveloped land acquisitions situated in the identified path of growth.

**Step Two:** Once raw, undeveloped land is identified in the path of growth, the Land Developer will negotiate favorable terms for acquiring the property. There are a number of ways that land developers acquire property, the two most common are:

- a) Purchasing the property upfront
- b) Obtaining an '*Option To Purchase*' agreement: the land developer obtains the rights to buy the raw land by a set date at a set price by offering a non-refundable deposit.

**Note:** Investors are typically sought at this stage to help fund the acquisition of the property and cover costs associated with Steps three - five. These are typically 'silent' partners in the raw land development project.

**Step Three:** Plans are drafted for a proposed future economic use of the land. (e.g. Master-planned communities, shopping centers, business parks, industrial complexes, etc.)

**Step Four:** The proposed plans are submitted to the city, county, state and federal governments for necessary approvals. This is known as "The Entitlement Process" and involves all of the critical sign-offs and approvals required for the newly proposed use of the property.

**Note:** In this step, the Land Developer literally 'creates' value and this is why raw land development can be so profitable. It is this entitlement process that creates an



**Figure 2.13 :** Moreno Valley Ranch landscaping project.

average 300-500% increase in the value of raw land - often with limited associated costs for even higher profits.

To define the value of the land is hard. The value can stay in a level for a long time and then suddenly increase and reach the developing period.



**Figure 2.14 :** Plot allocation for a development area.

The passive period includes the raw land. Raw land is the land which is marked as construction area or planned to be marked as construction area in the following year's zoning schedule. Infrastructure is not developed enough in those areas and construction of some infrastructure elements has to be waited for (Ertaş, 2000; Yıldız, 2000).

Raw land is the first level of passing through the agricultural land to the mature land for zoning. These land are mostly located outside the settlement areas and not yet assembled. generally they do not have connection to the main roads.

There may be agricultural facilities on these lands but they lost their characteristic features to be agricultural. In those regions, sale of the plots are incredibly increasing and especially because of the speculators. The reason is the capability of the plot to create more annuity than ever (Ertaş,2000). In this period, acquisition of land has high premium risk because of the speculative activities. If there is an acquisition realized, patience is needed for progression (Zuckerman and Blevins, 1991).

The increased value of the newly "entitled land" results from several important factors:

**A.** The land developer makes formerly raw, undeveloped land available to builders and construction contractors in "*ready-and-approved-to-build condition*" -- often with turn-key access to utilities, municipal water and sewer, roadways, etc.

**B.** Fully approved or 'entitled' land is ready for immediate construction, giving builders and contractors the benefits of accelerated cash flow and returns.

All of these factors help make raw land development projects among the *safest high yield money investments* available today.

**Step Five:** After the raw land's value has been increased by the completion of the entitlement process and other improvements such as access to utilities, municipal water and sewer, roadways, etc., the newly 'entitled' property is sold to building & construction contractors.

**Note:** A typical raw land development project will take anywhere from one to several years to complete. This all depends upon the size and complexity of the project, plus government approval time-lines.

Once the newly entitled land is sold, the raw land development process ends. Profits are realized and investors are paid. Finally, the building contractors take over.

After purchasing the land from the raw land developer, building contractors will begin to install the structures (e.g. homes, golf courses, retail shops, office buildings,



**Figure 2.15 : Lanscaping for construction.**

industrial complexes, etc.) on the newly 'entitled' land. They will go on to sell the finished homes, offices, etc. to their customers - the end users (homeowners, businesses, etc.)

In conclusion, there are four fact-based reasons for choosing raw land development instead of purchasing an already-done project.

The first reason is because professionally managed raw land development projects are considered to be among the most profitable investments available to investors today. Professional raw land developers will, on average, realize a 300-500% increase in the value of the raw land they are developing. (And, the land development investors get to share in the land developer's "Net Profits") The profit that raw land developers get is no like any other investment opportunity in the sector. This is by far, the most profitable form of real estate investment and surpasses most all other investment choices as well - including stocks, bonds, mutual funds, precious metals, oil & gas, etc.

The second reason you should consider investing in professionally managed raw land developments is because these investments are typically secured by the value of the raw land that's being developed (i.e. They are asset- backed for the investor's security). This means that in the event of a catastrophe such as a developer default, the land can be sold and investors can recoup all or part of their original investment.



**Figure 2.16 :** A planned site development.

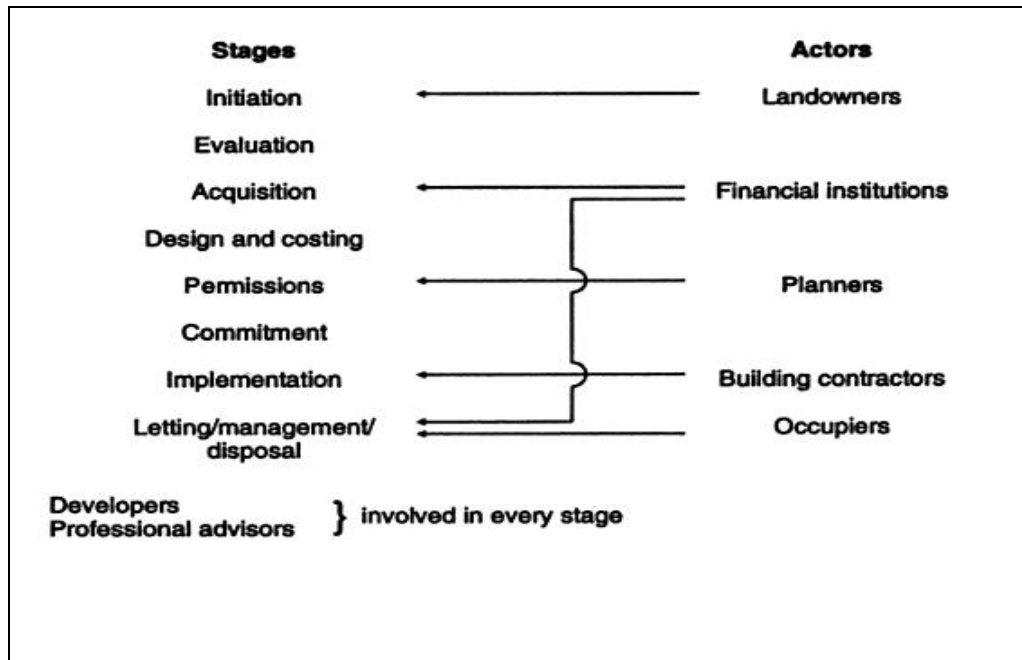
It can be compared with stocks and most other investment vehicles where you literally have no security at all on your investment in the event of a market downturn or devaluation.

The third reason to invest in raw land development projects is because unlike residential real estate, which we all know is in trouble in many markets, raw land development is booming in key markets around the world right now.

The fourth reason to invest in raw land development is because the Turkey population is expanding each year. And these new people will require new homes, schools, stores and communities to support them. There's really no choice, future population growth requires a tremendous amount of new land development and that process has already begun.

### **2.3 Stages And Actors Of Land Development Process**

As shown on the above figure, stages and actors take part in these stages are listed. (Fig. 2.17) The composition cannot be ruined other than extraordinary examples such as speculative developments. To define clearly the stages in detail, we can start with land purchase. The acquisition or assembly of an undeveloped land is defined as land purchase. The parties are the seller/landowner and the buyer, a speculator, developer, builder, an individual, household, firm or an agency buying for its own benefit.



**Figure 2.17 :** Stages and actors in the land development process.

A major question in the planning stage of any property development is the source of finance and method of repayment. A common distinction is made between short-term and long-term finance for development. The following part is summarized from Harvey, 1992: Chapter 8.

**Short-Term Finance:** This is required to cover the developer's costs during the preparation and implementation periods. It is used to purchase land, and pay the building contractor and professional consultant. In some cases, finance is available from the developer's own resources. More often, a loan is negotiated over a period of between one and three years.

The next step is preparation and development of the land. Procurement of professional and contractor services are necessary. To decide how to develop the land is based upon the zoning status. At this point, a highest and best use analysis must be evaluated by the professional appraisers in order to identify the best development status of the land and to make out the total cost framework of the development.

After finding the right way to develop the land, it is the turn for architects and engineers to prepare the projects of the development. This process has to move along



with the municipality in order to have the permissions to start the construction. Implementation of the project must be granted to a professional contractor that has a professional team of engineers and related qualified staff. The construction period starts with the excavation work and this stage needs considerably part of the total cost. The experienced contractors use the excavations to fill another land in order to minimize the cost. A timetable and cost planning is arranged for the construction period to be followed by the constructor.

The next stage is the land disposition. Like land acquisition, this stage contains a formal transaction; sale or lease of developed sites to their final owners or users who undertake construction of site improvements- buildings, plant, facilities and on-site infrastructure. Parties often acquire developed land for their own use, but it may be resale to a final user- owner.

Again, as in the acquisition of raw land for development, the land disposition transaction is independent of and outside the planning and development control system. But its content is often critically dependent on information defined in statutory plans, and may be the result of prior or simultaneous interactions with planning and development control agencies. Some of these may be anticipatory of the next stage, for example, rezoning and building permit negotiations related to the prospected buyer's intended construction on the subject site.

## **2.4 Land Development Process On Retails**

There are numerous benefits which can be directly derived from purchasing commercial land. The most important facts has been elaborated below:

**Income Opportunities:** Commercial land has some extreme advantages over residential land. The land used for economic development can have two types of returns. The first one is the rapid appreciation in value. These forms of terrain usually gain value as infrastructure and business activities are present. Secondly, commercial land can be rented. The rent can become a monthly income. This return could be used to payback the loan granted for its purchase. The property will appreciate in value and at the same time earn you a monthly salary through the rent paid.



**Personal Wealth:** People who invest in commercial land will also experience an increase in their wealth possession. Real estates situated at commercial areas are highly valuable possessions. When having land on an ideal location for business purposes, it is easier to set up your own small business. You can open a small office where you can perform.

Depending on your personal experience for instance, if you are a doctor you could open a cabinet for patients otherwise any other type of business which suits your experience can be started. It is perfect to own commercial land for a personal business. It will make your business more secure and it will also reduce fixed cost as there is no rent to be paid.

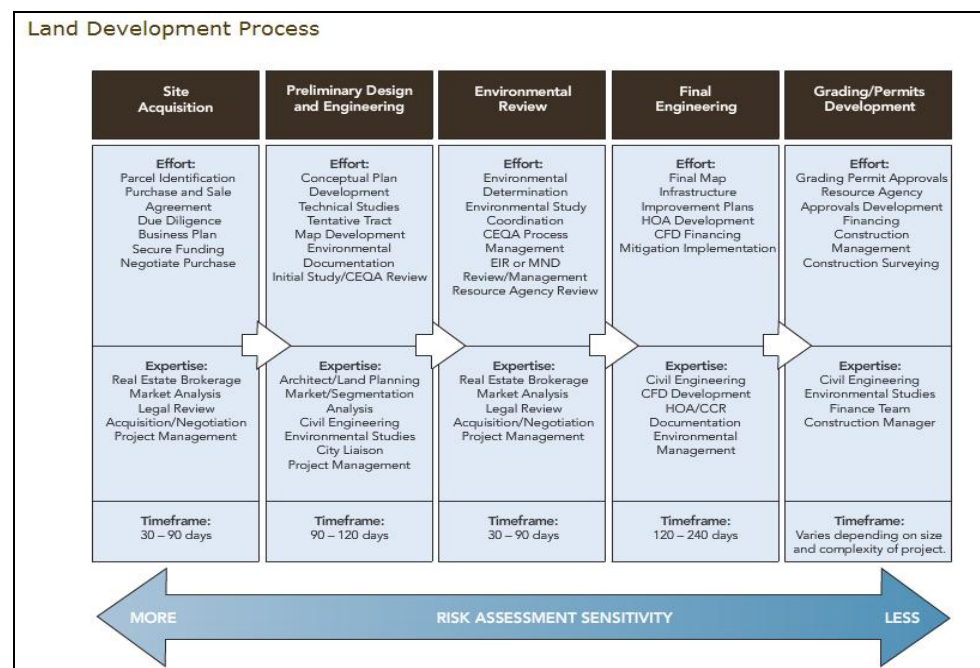
There are other benefits worth considering. These are two lucrative gains which can be derived when investing in commercial land. People who are knowledgeable and have experience in the field of land investment can certify that commercial land has several sources of income. The major shortcoming can be the high selling price and the initiative to understand how to gain access to finance.

Retail is one of the most important sectors in all developed economies. It is of paramount importance to understand reasons behind a purchase. There are several investors who focus on commercial real estates such as retails. They are certainly seeking for profit, a profit which can be both short and long termed.

Shops and shopping centers are very visible and familiar parts of the urban built environment. Their development is often a matter of controversy, since nearly everyone goes shopping, many people feel they are entitled to express views on the desirability of any proposal for retail development. New shops are often seen as a sign of municipal progress and achievement; but at the same time vested commercial interests decry new retailing as “unfair” and unnecessary competition. The various battles between the development industry and local opposition, with governments taking either side, have raised the profile of retail development to that of a continuously controversial issue. This analysis is one of the main subjects of this thesis study; the interactions of private and public sector attitudes in retail sector land development. (Guy, 1994) Prior to entering this investment sphere it is essential to learn the path that needs to be taken to successfully purchase commercial land for development opportunities. It does take some time to discover the secret of investors.

A significant amount of capital must be raised to purchase commercial land. People can gain access to funds through different channels. The most common sources of finance are personal finance and loans (mortgage or other forms of credit facilities).

Individuals who have a comfortable amount of capital can easily jump into this sector, but those who are less wealthy must consider loan. The most famous approach used is mortgage. This implies that when you purchase a parcel of commercial land you will use the property as a security. This security will open up doors for credit facilities from different institutions such as banks. It is quite easy to understand how the system works as it is very logical that land can act as a guarantee for payback.



**Figure 2.18 : Land development process.**

Another important feature of retail development is its scale in relation to most of the property industry. Shopping centers often occupy very expensive land and are complex and expensive structures in their own rights. Development within existing retail areas brings extra cost and delays associated with land acquisition, planning, negotiations and site preparation. The vast sums of money necessary for retail development programmes involve the world of finance capital to an extent rarely seen in other types of development. This capital is either directed towards retail firms

that carry out their own development, or injected into the shopping center development process in the form of long-term finance or participation in the development itself (Casey, 1998). The above table summarizes the process of land development in general. (Fig. 2.18) Also the timeframes for each step is given in a minimum-maximum range.

## **2.5 Criteria Used In Retail Development Process**

The case studies in the thesis are examined on the below criterias basis by including the cost analysis factor in each step. The cost efficiency of each step in three cities are evaluated.

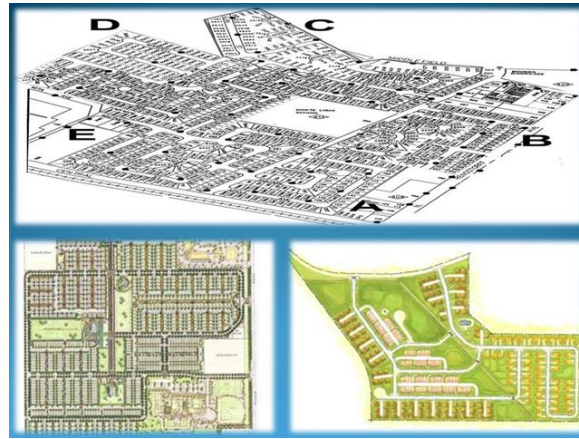
### **a) Land Assembly And Acquisition**

Land assembly and acquisition part is the first important step in a development project. The right place for the right project is vital for success. There is a careful research in the beginning and zoning and construction capability of the to-be-acquired land is extremely important in minimizing the costs. If the zoning is suitable for a commercial development project, then the zoning costs can be eliminated from the projected cash flow. Drawings can be easily completed and building permits can be claimed.

### **b) Feasibility**

Analysis of project feasibility is important as much as financing alternatives and their impact on project profitability, also planning and design of shopping centers.

The meaning of land identification is to find the most suitable land by having the right zoning, right topography and right socio-economic location for a shopping center development. Feasibility is named as vital in this step. The feasibility study also includes the research of competitors in the region and the socio-economical outlook of the environment. The answer to the question “Is it feasible to develop a shopping mall project in this location?” is stated when the feasibility study is completed.



**Figure 2.19 : Planning stages.**

### **c) The Deal Progress**

Estimated costs are survey, municipal, easements and title deed research. The survey of the land is completed by survey engineers and takes one-two weeks timing. Following the municipal and easement research and stating the title deed situation of the property, the deal progress starts. The best price for the stated land is bargained in order to be the best-fit price for both the sell side and the buy side.

The deal can be concluded on a partnership type on the project in order to minimize the risks and risk of returns in the project. This kind of partnerships are usually joint-venture type of partnerships so the an special purpose vehicle (SPV) company is formed. The company just owns the development subject, the shopping center and by this way, in any step of development, the financial problems can be shared as well as the profit prior to the completion. The most preferred way for the corporate developers is a joint venture formation for a certain development.

Also, another preferred way for large players in the sector is developing a project on the land that they own. This way increases the costs but provides freedom to the investor in decisions and all the way through the development process.

The third different method to develop a project is to choose to set up a partnership with the local authorities such as Municipalities. If the developer succeeds to sign an agreement with a Municipality organization, they can minimize the costs of the land acquisition and just concentrate on the development part. In this case, there is no

problem with the zoning also because the Municipality provides any help with the legal procedures.

**d) Purchase Property And/Or Sign Agreement**

The purchase of the property or signing a partnership agreement for the project is the next step. The purchase of the property is a definite cost so the lower the land cost, the better the cash flow exceeds.

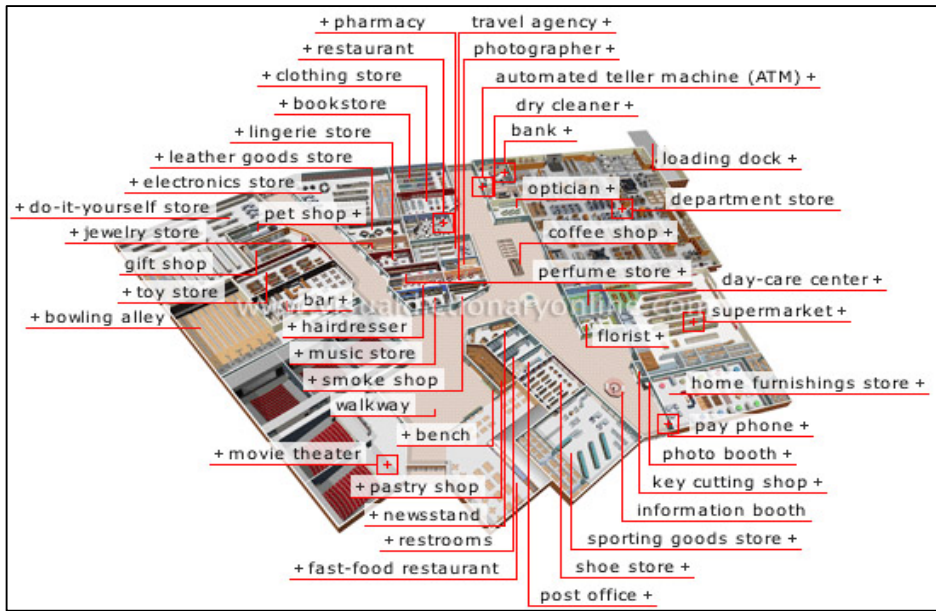
Signing an agreement for partnership in a development project means sharing the risks of the project all the way through completion. If the pre-studies are well done, and the researches in the region for the best environment and best location is completed, it can be stated that the risk factors for the beginning is minimized.

The rest of the project is focused on financial part and the partnership agreement is an insurance for both sides in the development. If one side goes down, the other goes down also. So the best deal for the project must be agreed on in order to rise up the profits of the both parts.

**e) Drawings & Concept Design**

Initial site development plans such as site design , land planning, preliminary construction drawings, on-going value engineering solutions. By improving the land development process, land developers can drive rapid turnarounds and make faster, better decisions increasing the flexibility and nimbleness of the land developer to respond to changing market conditions.

The concept of the development project can be roughly stated in the feasibility part of the development process by evaluating the environmental economical factors and the target catchement area. If the catchement is stated precisely, the shop mix and the concept design is easily shaped. In the vice versa scenario, when the target catchement profile is not clear, than the costs are made for a definite unsuccessful project. The right concept is the “aort” vessel of the project development. The following steps are also ruined by stating false concept for the development such as marketing.



**Figure 2.20 : Sample shopping mall planning.**

#### **f) Financing The Project**

Financial part of the development is necessary in order to define the costs for completing the project. The equity percentage in the project and the exterior financial sources such as bridge loans, construction loan and long-term loans are extremely important in this stage. The first type of loans that can be demanded from the financial institutions are bridge loans. These type of loans satisfy the urgent financial need of the project until a long-term loan is obtained. There are no grace periods and the rates are higher than usual. The widely used type of loans for the large scale development projects are construction loans. These loans have grace periods usually ranging between 1-2 years and the rates are slightly lower than bridge loans. Construction loans do not have low rates because the uncompletion risk of the project is evaluated. Another common loan type is long-term loans for the development projects. Different than the other two types, in this type of loans, different properties are the “caution” of the loan for any unexpected situation. The uncompletion risk is minimized for the financial corporations and another guarantee is provided for the loan. There are some other ways to finance the project by finding a strategical partnership or funding the project. The foreign financial corporations can act as a strategical partner, means financing the certain percetange of the project

defining their exit time in the process. They put a certain amount of financial support for the construction and waits for the leasing agreements to get mature and at a certain point defined previously, they have their increased share and goes away.

The funding looks slightly the same as strategical partnership. The fund comes in and brings equity, and when the project completes, they either buy the whole project or have their uprised share and go away. In both cases, the financial institutions have the minium risk, because they are the auditor and checking the process all through the way.

#### **g) Construction**

Increasingly, land developers are struggling to turn predictable profits while their customer base is eroding to retail land owners performing their own development. The need for speed to permitting and budget accuracy has driven land developers to pursue pioneering solutions that will allow them to hedge their risk and grow predictable revenue streams (Yeldan, 1995).



**Figure 2.21 : Retail development visual.**

The construction part is the most efficient part in defining the total budget of the project. The foreseen cash flows are realized in this step and it is easy to make a crosscheck for the costs. The lower the construction cost providing the best materials for the stated quality, the better for the cash flow.

#### **h) Operations; Center Management And Marketing**

Tenant planning, selection of optimal tenant mix, negotiations with potential tenants and signing of pre-leasing agreements is the fastest step in the process if there is

nothing wrong with the construction and if the timetable for the construction is not behind the planned schedule.

The right timing for leasing the shops in the shopping mall is the time that the construction level is more than %70 and the potential tenants can materially see the skeleton of the mall. It is easier to lease and the power to bargain for the leasing price is on the developer side. This picture shows the financial strength of the developer and a reliable development effect is provided.

Operations, center management and marketing is the process where the value of the development project is defined. With a good operator company referral, the marketing gets easier and leasing agreements are easily committed so that the tenants can trust the project and sign long-term agreements with the developer. The value of the leasing agreements also defines the profit of the developer so that the value of these agreements are multiplied by a specific rate in order to find the real value of the developed project. The land of the project is no longer the land, there is a value on it and that value is calculated by the successful leasing agreements signed with the tenants.

## **2.6 Shopping Center Development**

Shopping centers or shopping malls represent a collection of a variety of stores and, depending on the size of the center, they may also include food court and entertainment facilities. In order to understand the underlying rational of the different typologies of shopping malls one needs to understand first the drivers of locational demand for retail space.

Locational demand for retail space and store locational patterns with respect to consumers depend on the characteristics of the goods/services sold and, specifically, how homogeneous (standardized) they are, and how frequently consumers need to buy them. Retailers selling goods and services bought in high frequency tend to locate quite close to consumer concentrations.

A developer who contemplates the construction of a shopping center must undertake several exhaustive studies if the proposed project is to have any hope of succeeding. The first task is to analyze the market to determine the proposed project is financially

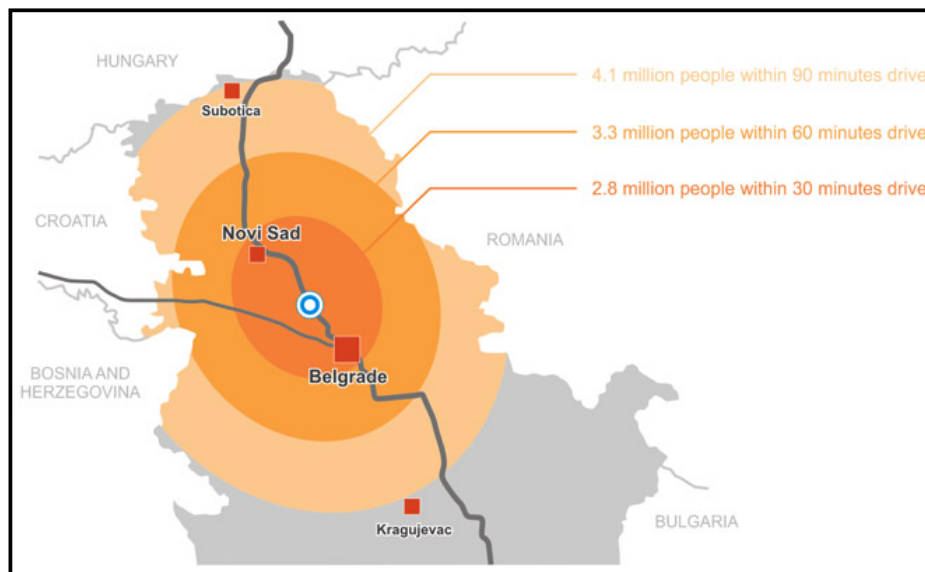


feasible. If it is, then the developer must determine the precise site that will be most likely to ensure the project's success.

### 2.6.1 Location Analysis And Catchment Area

The factors in completing a location analysis and stating the catchment area is;

- Econometrics & cycle forecasts
- Residential demographics & trends
- Lifestyle demographics
- Daytime population & employment
- Social class & shopping patterns
- Consumer expenditures “single –source” (scanner) data
- Syndicated consumer research–Simmons, MRI, Gallup, etc.
- Primary consumer research
- Business info–by annual sales revenue
- Shopping center info–anchors–primary stores
- Geographic information

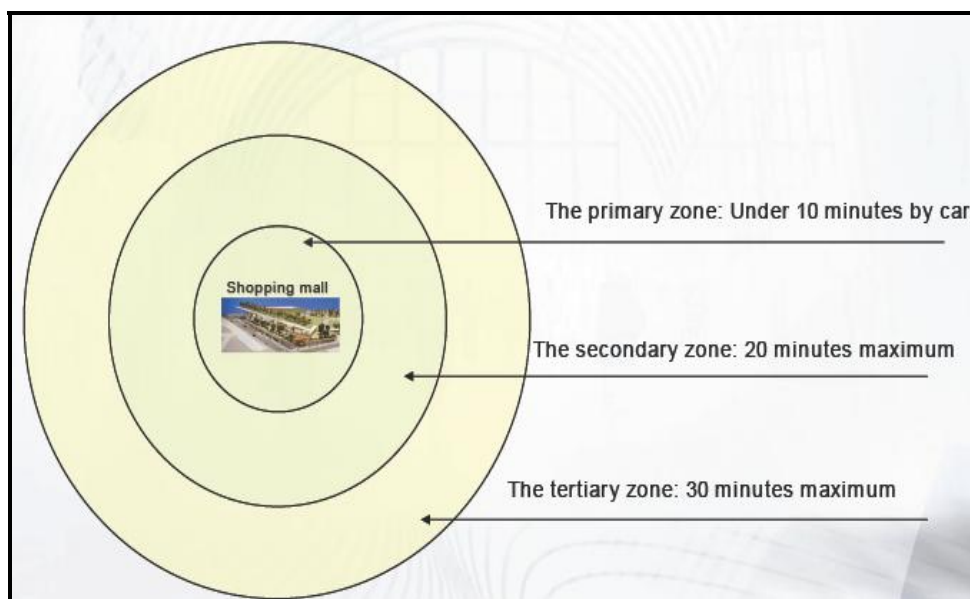


**Figure 2.22 :** Sample catchment zones.

The first step in a feasibility and market analysis is to define the “trade area” that is the geographic area from which the major portion of the patronage necessary to

support the shopping center is to be drawn. This area will vary with the types and quality of merchandise offered.

These factors are reflected in the trade areas for the various types of centers. The primary trade area- that is the area that accounts for 60 to 70 percent of the center's sales- will have a radius of 2.5 km for a neighborhood s.c., 5-7 km. for a community s.c. and 15-18 km. for a regional shopping center. Additional shoppers may come from the secondary trade area- the area for a regional center that is 15-20 min. driving time from the primary trade area and that normally accounts for 15 to 20 percent of the sales (Guy, 1994)



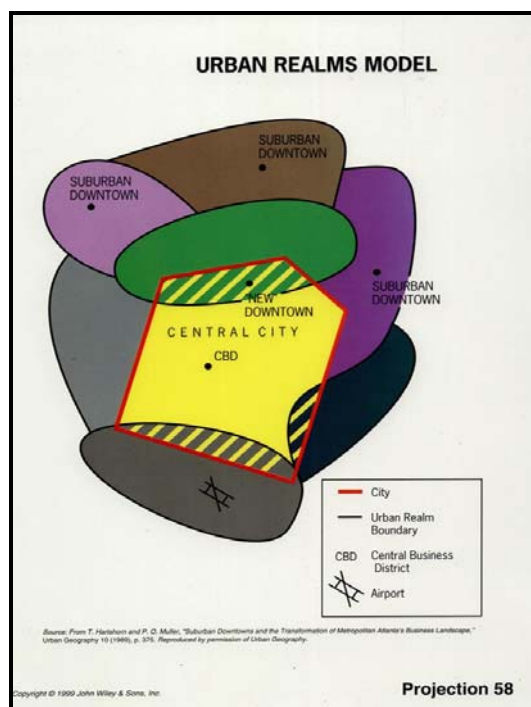
**Figure 2.23 :** Catchment zone definition of a shopping mall.

After the extent of the trade area has been determined, the next step is to calculate the size of the potential market within the trade area (Fig. 2.23). Projections are critical to the center's potential success because it is in the future that the center must compete in a marketplace (Floyd& Allen, 2002).

Site selection is the crucial factor of a shopping center besides the above mentioned factors. Several factors take part in this stage; size, shape, topography, drainage, utilities and zoning. The most important considerations by far, however are location and access. The neighborhood and convenience shopping center requires easy access from the supporting residential area. It is not necessary for shopping centers to be

located far from other centers, in fact centers located across the street from or adjacent to each other may be complementary. There is a saying among developers that there are three important considerations in real estate development “location, location and location”. Selection of any but the best site not only will mean a less successful center initially, it usually will mean that a competing center eventually will be built on the best site and will use this advantage to secure the lion’s share of the business.

Craig et. al. (1984) in "Models of the Retail Location Process" in the Journal of Retailing, provide a good overview of the literature dealing with consumer spatial behavior and retail/shopping center location models in order to evaluate the state of the art in this type of modeling and identify directions for future research. In this paper the authors discuss broader (macro) patterns of retail and shopping center location by reviewing the literature that focuses on the central place theory and the literature that focuses on the influence of market and infrastructure factors.

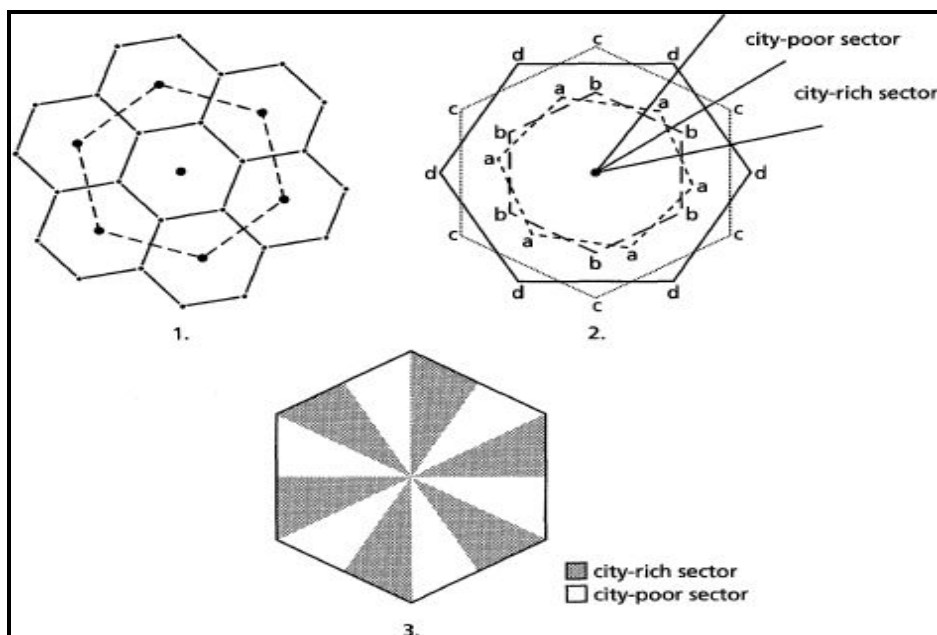


**Figure 2.24 :** Central place theory.

Central place theory is the best developed normative theory of retail and shopping center location (Fig. 2.24). Its value lies in its ability to consider simultaneously the

behavior of consumers and retailers in a spatial market context. Christaller's contribution to central place theory and its implications for shopping center location stems from two fundamental concepts: the range and threshold of a good. Losche's main argument in the central place theory is that the quantity demanded at a specific location decreases with distances. Working from these basic retail demand and supply concepts, Christaller and Losch inferred that in a perfectly uniform market (in terms of consumer density and other features) the retail location pattern would consist of retailers/suppliers that would be equally spaced and serve equally sized hexagonal market areas.

The early central place theorists envisioned a spatial construct consisting of a hierarchy of central places offering a variety of goods and services (Fig. 2.25). This hierarchy implies also a hierarchy of retail facilities and locations serving regional or very localized populations.



**Figure 2.25 :** Central place theory figure.

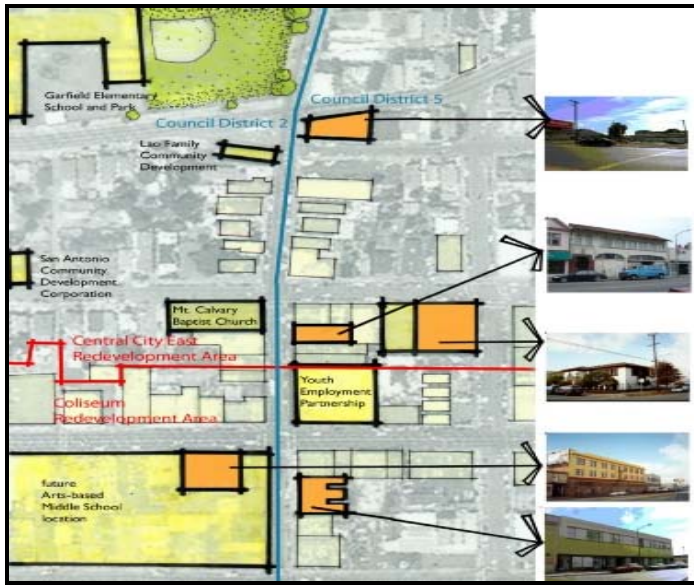
The market and infrastructure approach shifts focus and examines location decisions associated with a particular form of retail activity over time. According to this approach, the major market factors that shape retail and shopping center location patterns are capital availability, retail sales potential, the logistics of service and supply, and the elasticity of retailer profitability with respect to sales potential. In

addition, certain retail outlets require the appropriate infrastructure, such as paved roads, navigable waterways or public utilities to effectively market a product or service. In the third section of the paper, Craig, Ghosh and McLafferty review models of consumer store choice. The main models and theories discussed by the authors include the nearest-center hypothesis, the "just noticeable" distance hypothesis, Reilly's law of retail gravitation and the revealed preferences approach where the consumer utility function is determined by both locational and non-locational factors.

Finally, the fourth section considers the more traditional approaches to site selection, the checklist analog and regression methods along with the more recently developed location-allocation models.

### **2.6.2 Multiple Store Location Model**

In today's global and highly competitive economy retail chains employ multiple store networks covering complete market areas in their countries while expanding internationally. Within this context, when locating single store units, national and multi-national retailers should place such decisions within the context of creating an optimal network of stores covering their target cities and countries. Thus, optimizing the locations of a network of stores as opposed to optimizing the location of a single store is a totally different proposition and requires the development of a model of multiple store location. According to Achabal et. al. such models are complex and involve simultaneously determining the size, image, location and profitability of a group of stores. However, they can provide to the managers some multiple-locations solutions with high degree of statistical confidence. Using multiple location modules require the retailer to collect basic consumer purchase data and data on the location of the competition. This will require consumer research studies that will increase the cost of a location study, but retailers can expand their analytical capabilities and the robustness of their location decisions by using multiple location models. In particular, such models can assist retail managers in estimating the impact of new stores on the market share of existing units, identifying the significant attributes (store size, image, etc.) that are contributing to the success of a retailer's business and evaluating the probable change in sales that can be potentially achieved by remodeling activities.



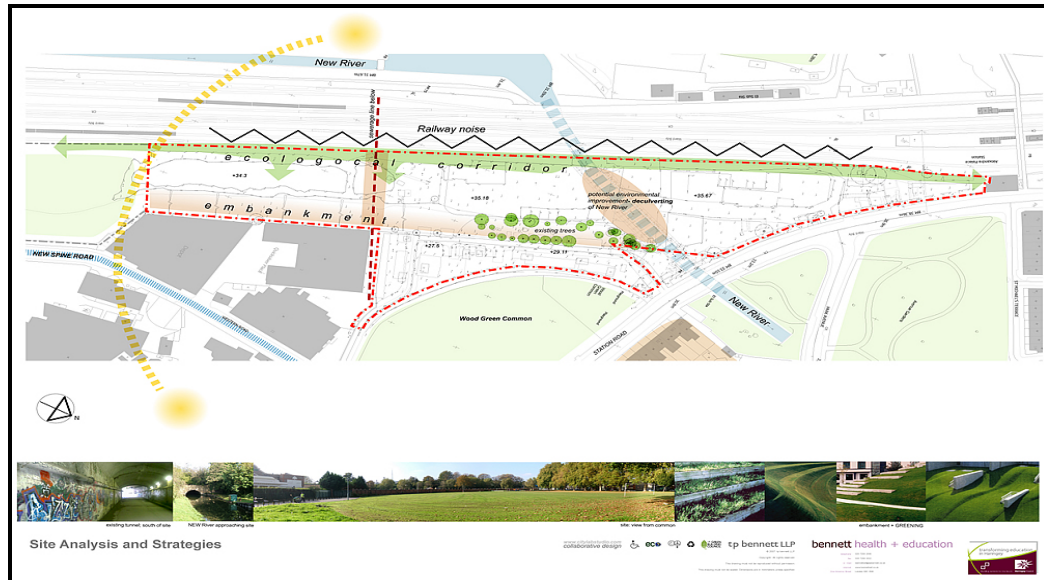
**Figure 2.26 :** Store location scheme.

Site analysis data elements are; site type, site orientation, accessibility, signage, vacancy rate, business compatibility & retail mix, architectural compatibility, age of surroundings, quality of area housing, maintenance & appearance, parking, traffic & street conditions, environmental assessment & impacts, security & safety.



**Figure 2.27 :** Site&building analysis.

Analysis tools can be defined as trade area modeling such as drive time & walk time analysis, thiesen & other competitive analysis, market rings, distance decay, gravity modeling; predictive modeling, thematic mapping, reporting.



**Figure 2.28 : Site analysis.**

## 2.7 Types Of Shopping Centers

Goods and services sold by retailers can be classified into four major categories, based on how homogeneous they are and how frequently they are purchased (Carn et al., 1988):

- a) Convenience goods, representing standardized goods bought at high frequency from the store located closest to the consumer (food, drugs, etc.)
- b) Shopping goods, representing less standardized goods that are purchased less frequently and involve some comparison shopping (furniture, clothing, etc.)
- c) Personal services, representing services purchased often from the store most conveniently located with respect to the consumer (shoe repair, dry cleaning, etc.)
- d) Specialized services, representing services that are bought less frequently and involve some comparison shopping (insurance, travel, etc.)



- **Neighborhood centers**, which are usually anchored by a supermarket or a drugstore and include a small collection of other stores selling convenience goods or personal services. (Fig. 2.29) Since these stores are selling goods and services purchased with high frequency, they are located close to consumer concentrations and draw the majority of their customers from a small area around their location (within a driving distance of 15 minutes). In other words, their primary trade area is small and the typical size ranges between 50,000 and 100,000 sqm.



- **Community shopping centers**, which are usually anchored by a discount store, junior department store, or a variety store, and comprise stores that offer mostly convenience goods, personal services, and, perhaps, some shopper's goods (furniture and clothing) or specialized services. (Fig. 2.30) Their typical size ranges from 120,000 to 400,000 sqm, and their area of influence extends to about a 30-minute drive from their location.



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- **Power centers**, which include national tenants advertising heavily on television. (Fig. 2.31)

Their size ranges from 150,000 to 300,000 sqm, and their area of influence extends up to a 40-minute drive from their location.



**Figure 2.31 : Power center.**

Power centers represent a somewhat newer retail format, relative to the other four.

Although the aforementioned typologies of retail centers are commonly found, retail center formats are often being challenged, as retailers and developers seek strategies and shopping environment settings that will enable them to increase market share.

For example, some other retail-center formats include super-neighborhood centers, which are neighborhood centers with larger anchors, off-price centers selling higher-end brand-name products at considerably reduced prices, and outlet centers, which represent a collection of outlet factory stores.

- **Regional shopping centers**, which are typically anchored by one or two full-line department stores and offer a wide range of shop-per goods and specialized services, as well as some convenience goods. (Fig. 2.32)

They typically include recreational facilities, and their size ranges from 800,000 to 2,000,000 sqm. Their area of influence extends up to a 45-60 minute drive from their location.

Regional shopping centers have a catchment target of the district they are located in.



**Figure 2.32 :** Shopping center drawing.

- **Super-regional shopping centers**, which are typically anchored by three full-line department stores and offer a wider range of shopper goods and specialized services, including recreational facilities. (Fig. 2.33) Their size is usually greater than 2,000,000 sqm, and their area of influence extends up to a 60-minute drive from their location.

The structure of retail leases, which typically include a percentage of store sales, provides a significant inducement to developers/investors for optimizing a center's design and tenant mix and venturing into new retail formats. Schmitz and Brett (2001) indicate that shopping center types are becoming less distinct as tenants typically found in regional malls venture into other center formats, and vice versa. Furthermore, hybrid formats targeting specific market segments are emerging.



**Figure 2.33 :** Mall of America in USA.

## **2.8 Investing in Shopping Centers**

Advantages of investing in shopping centers include:

- Investors and analysts can more easily define their primary and secondary market area and competition direct or indirect, compared to office and residential investors
- Investors, in addition to base rent, they have the extra benefit of percentage rent, that is, a from gross sales of the retailer once the gross sales exceed a certain level explicitly quoted in the lease contract, which will provide significant income boost and capital gains for the investor in the case that the center is very successful

Disadvantages and risks of investing in shopping centers:

- Rental income is not assured as a non-negligible part of it represents percentage rent and will depend whether the tenant will exceed a certain level of gross sales. Also the effects of competition can be very severe in case a very strong competitor claims market share from a center's primary market
- The emergence of new formats and specialty shopping centers with the risk of existing shopping centers becoming outdated, lose competitiveness, requiring significant re-structuring of tenant mix and capital expenditures to become competitive
- The emergence and entrance in the market of new more powerful multi-national retailers with more attractive merchandising and pricing strategies may render a shopping center's anchor tenant and the whole center for that matter considerably less competitive reducing significantly its sales
- More severe impact on property income and value from poor property management

### **2.8.1 Key Players In Shopping Center Operations**

The key players in shopping center operations include:

- \* Lenders who usually provide most of the capital required to develop and initiate the operations of a shopping mall
- \* Tenants who rent the space in the center and sell their goods or services to consumers.

\* Consumers who purchase goods and services offered by the tenants, and Shopping Center Operator who carries out the day to day property management operations of the center.

All players are important for the successful operation of the center, with the lender though playing a much more important role in the development of the center and much less in its operations. Consumers are of course the lifeblood of a shopping center's operation and without them a shopping center can not survive for long. If the center's tenant mix, and merchandising policies are not attractive enough to attract enough consumers and achieve a critical volume of sales, then many tenants will have problems in covering their costs, including the rent they pay to the center's owner, and will eventually vacate the space they occupy. Thus the center will suffer increasing vacancies, will provide less offerings to consumers, thus becoming less and less attractive to the public with decreasing sales.

When such symptoms appear the shopping center operator's role becomes very crucial in changing the tenant mix and adopting in cooperation with the tenants successful merchandising policies that will bring back consumers.

### **2.8.2 Shopping Center Tenant Mix**

Shopping center leasing process should adhere to a particular tenant mix strategy, which takes into account the site's primary target area demographics and the nature of the competition. Tenant mix is defined as the combination of store types, consumer goods and services offered at the center, as well as the price levels for which these are offered. The ultimate objective of an effective tenant mix and pricing/merchandising strategy is create a center image and tenant synergies that appeal to the different types of consumers that reside in the center's primary and secondary area, thus encouraging multiple purchases from the different types of stores located in the center. According to the "Shopping Center Management" published by ICSC, all shopping centers include more or less the following types of stores occupying different GLA proportions: Specialty stores, high-end stores, women's ready to wear, men's wear, shoe stores, gifts, accessories, cards and stationery, jewellery, music, records, videos, fast food, specialty restaurants, entertainment services.



**Figure 2.34 :** Shopping center interior view.

In designing tenant mix, the developers and operators of the center need to thoroughly examine the preferences of the center's potential customers in the primary target area. We will refer to this group or groups as primary customer target groups. Based on the characteristics of these groups the development's strategists need to determine among others:

- 1) The quality of goods and services to be provided (high gearing to high-income and eclectic households, a balance between quality and price for medium-income households, or low-quality, low-cost for low-income households)
- 2) Whether a broad or a narrow assortment of goods will be provided
- 3) Quality and assortment of dining and entertainment facilities
- 4) Level of aesthetical appeal of the center
- 5) Spectrum and level of provision of culturally
- 6) Special-activity oriented facilities gearing to the make up of the consumers residing in the center's primary market area, such as physical exercise and other health oriented activities.

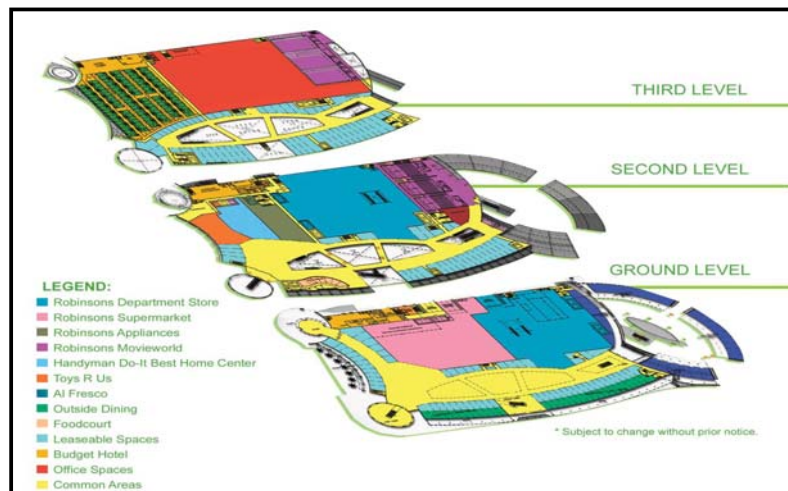
Two of major objectives of tenant mix selection is to provide an appealing clustering of similar types of stores that can provide better opportunities for comparison

shopping and appealing collection of different but complementary types of stores in order to encourage multiple-purpose shopping. (Fig. 2.35) Some examples of collection of stores aiming at facilitating comparison shopping are the following:

- Clustering of upscale food-related businesses, such as fine dining, upscale casual dining, upscale wine bar, upscale international restaurants
- Entertainment-related retail services including specialty bookstores, video and CD shop, bicycle shop, and sports goods stores

Some examples of actual tenant mix aiming at promoting multi-purpose shopping, that is, the purchases from different types of stores at a single trip at the center, through clustering of shops that offer complementary goods include:

- Health-oriented cluster including physical fitness center, sports clothing and casual health-food dining clustering of shops and services physical fitness center, drugstore, upscale grocery store



**Figure 2.35 :** Shopping center sample floor plan.

- Clustering of quality sandwich shop, card and gift store, unisex clothing store, children's clothing, and athletic equipment/clothing
- Home oriented cluster including interior design shop, bath shop, upscale kitchen shop and florist shop. Beyond finding an appealing tenant mix it is equally important to get a few very appealing anchor tenants, with proven record of successful product



lines and merchandising policies. Securing such anchor tenants is absolutely vital for the successful operation of the shopping center and for this reason typically the construction of the shopping center will not start until some strong anchor tenants sign pre-leasing contract agreements.

## **2.9 Details Of Successful Shopping Center Development**

Retail property is one of the three major types of commercial real estate, that is, properties that are used by businesses.

The other two types include office (office buildings) and industrial real estate (factories, warehouses, distribution centers, logistics centers, etc). Understanding the various factors and forces that drive demand for retail property is very important for investors targeting this type of real estate, as it will help them better evaluate the prospects of a market for supporting the value of their investment.



**Figure 2.36 :** Shopping center exterior view.

Retail property is demanded by retailers as a means of satisfying household demand for goods and services. Therefore, the aggregate demand for retail property and store space within a market depends on consumption patterns and retail purchases across the different product lines.

Since retail space requirements vary considerably across product lines, the correct way to perceive total demand for retail space in a market is to think of it as the sum

of differentiated retail space demands by product line. This framework is especially useful as we move from the abstract concept of aggregate demand for retail property in a market to specific locations and smaller-scale areas.

Aggregate demand for retail property depends on the volume of sales by product line and the sqm per dollar of sales required by retailers in each product line in order to operate efficiently. The quantity of sales by product line will depend both on market size and household structure, as well as on other economic forces, as indicated in Figure and listed below:

- Total population and number of households (size factor)
- Population/household age mix (structure factor)
- Household income mix (structure factor)
- Credit conditions (economic-environment factor)
- Consumer expectations (economic-environment factor)
- Relative prices (economic-environment factor)
- Tax and other policies (economic-environment factor)

Before discussing these factors, it is important to understand the overall pattern and path of their influences on an area's retail sales and demand for retail property. The key factors underlying the volumes and types of retail purchases across product lines are total population size and spending patterns. Spending patterns describe how households/ consumers distribute their purchases across different product lines.

Spending patterns are determined by two major structural characteristics of the area's population and households: a) its age mix, and b) its income mix. The age mix of the population refers to the distribution of population and household heads across different age groups. The income mix refers to the distribution of population/households to different income groups in terms of annual income earned from employment or investments. The amount of household income that is available for retail purchases is influenced by various economic factors, such as consumer expectations, credit conditions, and government tax policies.



Spending patterns determine the types, price levels, and quantities of goods and services purchased by households, and as such represent a major determinant of demand for retail property in a market. The total quantity of goods and services purchased within each product line are determined by both spending patterns and total population size. The quantities of goods and services sold, along with respective prices, determine the total volume of sales in each product line and the demand for retail space for that product line. Volume of sales and space requirements per dollar of sales determine total space requirements within each product line. The sum of the total retail space requirements by product line represents the aggregate demand for retail space in a market.



**Figure 2.37 :** Shopping center architectural drawing.

The dynamics described indicate that the types and volumes of retail goods likely to be demanded in an area determine the types and amount of retail property demanded by retailers operating within that market. Understanding how the factors listed above influence consumer expenditures will help form a frame of reference for identifying circumstances that trigger increases in sales for different product lines and demand for retail retail property.

**Total Population and Number of Households;** Population size is an important determinant of an area's total rental demand for retail property as it affects the

magnitude of consumer expenditures in a given area. The total number of households also affects total consumption expenditures since some are household-related as opposed to individual-related. Compare, for example, the case of ten people forming ten households (each one living on its own), with the case of ten people forming five households. Assuming that each household spends the same amount on furniture and kitchen appliances, expenditures on these items in the case of the ten households will be twice as much, compared to the expenditures of the five households. Total expenditures on clothing, though, will be the same in both cases, if we assume that each individual spends the same amount of money on this item. Within this framework population and household size are very important determinants of the level of total demand for retail space and retail property within a market.

**Demographic/Age Composition;** The demographic/age composition of an area's population in terms of age, sex, household size, etc. influences the types of purchases made in that area. (Fig. 2.38) Notice that household characteristics and, therefore, the types of goods purchased, change as a household goes through the different stages of the life cycle. For example, young individuals or couples without children (pre-nest stage) form smaller households and spend less on home-related items and more on food away from home. As couples get married and have children (full-nest stage), household size increases, and expenditures related to kids, housing, and food at home increase significantly. As children grow up and move out of the family home, household size gets smaller (empty-nest stage), expenditures get smaller and shift towards items related to older age. Within this context, the age composition of household heads summarizes this information as it captures the different stages of the life cycle.

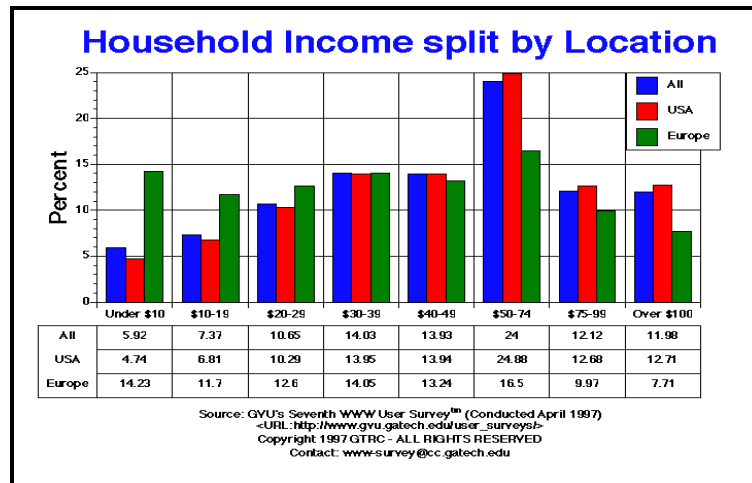
To better understand the impact of demographic composition on spending patterns and demand for retail property, consider the following extreme and unrealistic example of two communities with very different demographic structure. The two communities are Community A, with a population comprised of only young, married couples who own their houses and have kids, and Community B, with a population comprised of only retirees living in rental housing with no kids. Obviously, retail sales in these two communities will differ in many respects. For example, in Community A, there will be many sales of kid-related goods and services (kids

clothing, shoes, toys, school items, and so on), as well as housing-related goods (Home Depot), since all households own their houses. On the contrary, in Community B, there will be minimal sales of kid-related goods (gifts for grandkids, perhaps) and limited sales of housing-related goods, since its residents, being renters, refrain from serious home-improvement activities.



**Figure 2.38 :** Population chart.

In a study of differences in retail expenditures per capita across 250 MSAs, Ingene (1984) verified the effect of the different life-cycle stages on consumption patterns. For example, he found that the percentage of households/individuals in the full-nest stage had the greatest positive impact on retail expenditures. In other words, a one-point percentage increase in these households was associated with the greatest percentage increase in retail expenditures. Such impact is consistent with the theory that predicts large expenditures on food, clothing, and durable goods at this stage of the life cycle (Rodrik, 1991). This is consistent with the theory that predicts purchases of durables, furniture, automobiles, and clothing by individuals and households at this stage. Not surprisingly, the percentage of households/individuals in the post-nest stage (referring to two life-cycle stages, namely empty nest and solitary survivor) was found to have a negative effect on expenditures per household, specifically as they pertain to department, furniture, and variety stores. The bottom-line conclusion from Ingene's analysis is that increases in the number of households in the full-nest stage of their life cycle should trigger significant increases in sales of clothing, durables, and food. Such increases will in turn boost demand for store-space within these product lines. On the contrary, increases in the number of persons and households headed by older individuals in the empty-nest and solitary-survivor



**Figure 2.39 :** Household income chart.

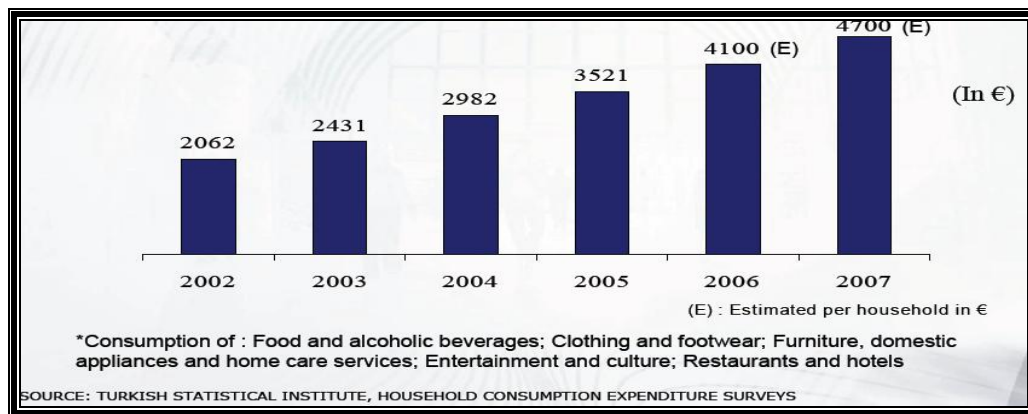
stages are likely to result in decreases in sales of department, furniture, and variety stores, and therefore, reduction in demand for store-space in these product lines.

**Household Disposable Income;** Income influences significantly spending patterns and retail property demand, since it determines the level of a household's retail expenditures and the types of goods purchased. The major source of income for most households is employment earnings, which tend to increase, as a person gets older. Thus, household income changes as a household goes through the different stages of the life cycle. For example, single young adults tend to have lower incomes than mature married couples, who are further on the wage scale due to experience and, potentially, earn two incomes, as both husband and wife may have jobs. Furthermore, wages and employment earnings are influenced by economic growth and other economic factors.

The disposable income available to a household for retail purchases is what is left from total income earned after taxes, interest payments, housing expenditures, expenditures on health, education, and public transportation, and savings are taken out. Thus, factors that influence household expenditures on non-retail items have an effect on the level of disposable income available for retail expenditures. Four major marketing criteria should be considered at the decision stage for marketing elements in order to provide a successful development for the developer and investor.

- a- Market potential
- b- Necessary turnover per sqm

- c- Target market share
- d- Commercial concept

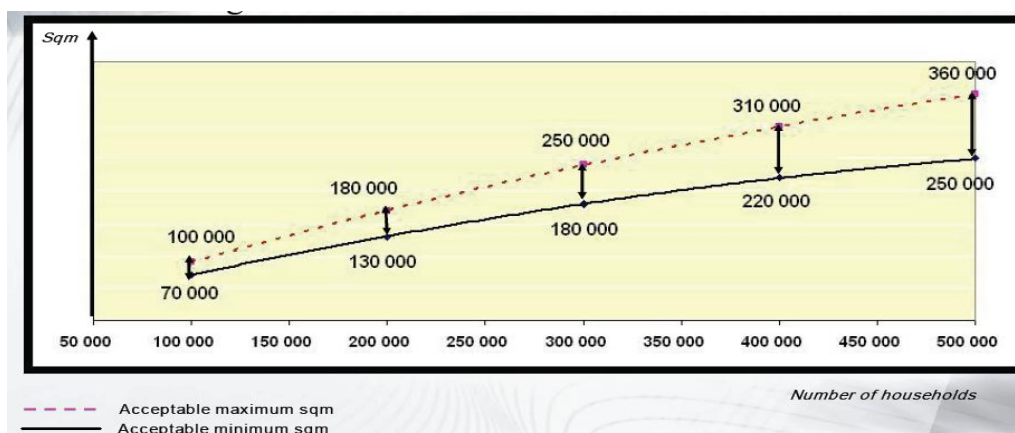


**Figure 2.40 : Household consumption chart.**

Catchment area is one of the most critical elements in developing the concept of the shopping center. Catchment area is dependent on:

- The size of the population in the surrounding area
- The income and purchasing power of the population
- Accessibility and access conditions (Car, pedestrian and public transport)
- The size of the mall
- The type of tenants' activities& the type of concept of the mall

The expenditures of the household has grown by 2.3 fold between 2002 and 2007 in Turkey. The above and below table shows the changes by figures.



**Figure 2.41 : Household income changes chart.**



### 3. CHANGES IN RETAIL DEVELOPMENT IN TURKEY AFTER 80's

Two broad trends underlie in changes in retail demand and retail provision. These are first, changes in the population and its expenditure on consumer goods and second, changes in the structure of the retail sector often arising from competition between retail firms. These two trends forced the sector to go into a standardization process in order to stay still.



**Figure 3.1 :** Shopping center drawing.

To comment on the changes in the retail sector, an initial distinction between “planned” and “unplanned” retailing should be made. An “unplanned” retail area is one that has evolved in a gradual and/or piecemeal manner often through conversion of buildings originally designed for some other purpose. Its ownership is likely to be fragmented between several companies including some of the retail occupiers. “Planned” retail development can take place within “unplanned” areas, but if this development is small in relation to the retail area, the area is said to be an “unsuccessful” development. (Guy, 1994)

Until the 1980s, Turkey relied on a development strategy based on import-substituting industrialization, under which the semi-controlled mixed economy (with largely privately-owned agricultural resources and a both publicly and privately-owned but state-dependent industrial sector) showed little responsiveness to changes in international circumstances. The business environment was protected and directed to the internal market, and there was an overall discouragement of direct foreign investment. This strategy delivered quite successful results in the early phase of creating an industrial base in consumption goods, as is indicated by the economic boom that the country experienced during the early 1960s, when it averaged an annual growth rate of 7%.



**Figure 3.2 :** Shopping center drawing.

However, after the mid-1960s, it became clear that the strategy would not be as successful in the phase of producing intermediate and capital goods, due to the crucial dependency of domestic performance on the availability of imports. A deep economic crisis emerged in the late 1970s, when the oil shocks and rampant inflation aggravated the difficulties facing the strategy. Consequently, starting from 1980, a more outward-oriented development strategy, which aimed to develop the export potential of the country by recognizing and coming to terms with global competition conditions and whose detailed explanations can be found elsewhere (see Senses, 1991; Önis, 1991 and Önis, 1992), replaced the previous strategy and affected both production and consumption patterns in the economy.

Following the adoption of the new strategy, the economy has once again experienced relatively high rates of growth, averaging an annual rate of 5% during the 1981–1993 period, facing a crisis in 1994 due to a loss of domestic confidence, and bouncing



back in 1995 with a rate of 8.1%. (Önis, 1991) The high growth rates have meant substantial improvements in incomes: in 1995, per capita income rose by over 20% to \$2685. Because the improvements have been mostly due to rises of incomes from interest, rent and profits rather than agricultural incomes, wages and salaries, the main beneficiary has been a segment of relatively well-off urban population (see Boratav, 1986; Yeldan, 1995). The urban populations, whose share in the country's young and expanding total population of 62 million (1995) exceeded 60% (as opposed to only 32% in 1960), have been associated with a disproportionate share of the increases in income, consequently indicating a transfer of resources from rural areas to large cities such as Istanbul (over 6.6 million in 1990), Ankara (over 2.5 million), and Izmir (over 1.7 million). The result has been a growing and sizable consumer market promising a large, steady and consistent demand for products at least in the large cities, which has made Turkish retailing prone to increasing pressure from large domestic and international corporations.

The economy and the average household income is the most important criteria for retail development in specific types. After 1980s, the shopping center boom had a start in Turkey following the boom in European countries. At this stage, some retail developers searching for emerging countries decided to invest in İstanbul so the competition began. In time, because of unplanned retail developments by the appetite of high profit margins, the sector has gone into a gap and then declination.

The cessation in growth of consumer expenditure at the end of 1980s had major effects upon the retail industry in Turkey. Success, failure, growth and decline among retailers depend largely upon vagaries of consumer expenditure and preferences. The concentration of retail distribution over Turkey has given certain retail companies enormous influence over the development process.

Recently, the private entrepreneurial sector has begun to look ready to take the leading role from the state in the development process. There are still doubts about the sustainability of the program (see Senses, 1991; Waterbury, 1990) The political context of public sector reform and privatization in Egypt, India, Mexico, and Turkey. In *The Political Economy of Public Sector Reform and Privatization*, (Suleiman et. al., pp 293–318.) and serious concerns as to whether recent policies

will also successfully manage to provide a safety net to help offset traumas such as unemployment, inflation, and small business failures.



**Figure 3.3 :** Shopping center drawing.

However, the move towards a freer market economy via liberalization, foreign investment, deregulation, and to a lesser extent, privatization has already advanced. Some sectoral transformations are already occurring — developments which have not yet been of a comparable scale, nor as complete, as in some other countries; but which are still worthy of scholarly attention. One such sector has been retailing whose recent transformation reflects the major changes occurring in the country's economic and political life.

Before the 1990s, the Turkish retail structure was highly fragmented and was neither horizontally nor vertically integrated (Kumcu and Kumcu, 1987). Small-scale, capital-weak, independent, and family-owned retailers dominated the trade (Samli, 1964). The activities of large retailers were quite negligible; and multinational retail firms were unheard of, except for Migros-Türk in Istanbul. Retailers were almost invariably working for themselves from small premises and few would have more than one shop. Small, independent and single-location retailers would only enjoy those agglomeration economies which are realized through the growth of a total business cluster at one location. In addition to cluster-related factors, the locational dynamics of retailers were largely controlled by accessibility, the interaction of threshold and range effects associated with the products they sell, and consumer attitudes and perceptions. Evolving into larger-scale retailing was

extremely difficult for small retailers. Organic expansion at modest rates, as opposed to takeovers, mergers, and joint ventures, was the usual process of growth.

**Table 3.1 : Country risk assessment.**

2009 rank	Country	Region	Country risk (25%)	Market attractiveness (25%)	Market saturation (25%)	Time pressure (25%)	GRDI score	Change in rank compared to 2008
1	India	Asia	54	34	86	97	68	+1
2	Russia	Eastern Europe	31	58	51	100	60	+1
3	China	Asia	62	42	47	74	56	+1
4	United Arab Emirates	MENA	89	66	50	21	56	+16
5	Saudi Arabia	MENA	70	46	68	39	56	+2
6	Vietnam	Asia	34	16	74	97	55	-5
7	Chile	Latin America	77	58	51	33	55	+1
8	Brazil	Latin America	52	60	68	31	53	+1
9	Slovenia	Eastern Europe	100	64	12	33	52	+14
10	Malaysia	Asia	65	47	48	45	51	+3
11	Algeria	MENA	17	24	93	70	51	+1
12	Mexico	Latin America	61	56	49	28	51	-1
13	Latvia	Eastern Europe	58	67	42	23	50	+8
14	Tunisia	MENA	55	37	92	24	49	+4
15	Egypt	MENA	43	25	91	38	49	-10
16	Lithuania	Eastern Europe	68	64	29	37	49	+14
17	Ukraine	Eastern Europe	30	33	46	87	49	0
18	Peru	Latin America	40	33	81	40	48	-4
19	Morocco	MENA	47	27	77	41	48	-13
20	Turkey	MENA	33	58	67	34	48	-10
21	Bulgaria	Eastern Europe	44	41	48	54	47	-5
22	Indonesia	Asia	35	39	75	37	46	-7
23	Romania	Eastern Europe	49	41	33	58	46	-1
24	Croatia	Eastern Europe	54	58	13	46	43	N/A
25	Philippines	Asia	28	31	76	29	41	+1
26	Thailand	Asia	50	32	42	34	40	-2
27	Hungary	Eastern Europe	70	63	0	22	39	N/A
28	Colombia	Latin America	28	35	61	27	38	-9
29	El Salvador	Latin America	29	31	71	15	36	N/A
30	Argentina	Latin America	15	42	56	29	35	-2

**Key**

On the radar screen

Lower priority

To consider

**Legend**

0 = high risk

100 = low risk

0 = low attractiveness

100 = high attractiveness

0 = saturated

100 = not saturated

0 = no time pressure

100 = urgency to enter

Notes: MENA = Middle East and North Africa; Scores are rounded

Sources: Euromoney; Population Reference Bureau; International Monetary Fund; World Bank; World Economic Forum; Economist Intelligence Unit; PricewaterhouseCoopers; A.T. Kearney analysis

The following section provides insights into the changing dynamics of retailing in the country by tracing especially the corporate private sector which left retailing to small and independent retailers in the producer-driven environment of the pre-1980 period, but started to integrate forward to retailing in the late 1980s and 1990s, with or without the cooperation of international retailers.



**Figure 3.4 :** Prime Mall in İskenderun.

Today, a decade later, small, independent, and single-location retailers still command a good deal of market power, but the first signs that the industry is experiencing a transformation are now quite obvious. The last decade has witnessed the emergence of large-scale retailing, and introduced a trend towards ownership of multiple retail outlets having common managerial control. Behind the transformation were domestic corporations, international retailers, and to a lesser extent, some exceptionally successful small domestic traders. The first two groups include those who have somehow managed to “start big” in retailing from the outset: market penetration. The last group consists of those who have experienced an evolution from small trading (especially wholesaling) to relatively larger retailing: organic expansion.

Domestic corporations group contains some large domestic corporations which, in the 1990s, suddenly added retailing to their portfolios. (Akçura, 1974) Examples include, among others, Sabancı, Tekfen, Dogus and Transtürk groups. These powerful domestic businesses whose commercial interests were outside retailing until recently are now important players in the sector. These large businesses are multi-company firms which transact in different markets under common entrepreneurial and financial control.



**Figure 3.5 :** Optimum Outlet in Kozyatağı-İstanbul.

They are vertically and horizontally integrated multi-product oligopolies that not only hold controlling shares in a diverse portfolio of enterprises, but also involve themselves in the management of these firms. Through diversification and operation in several markets, they spread risks; through vertical integration they avoid dealing with oligopolized supply markets. As retailers, therefore, it is obvious that they are in very different positions than small and independent retailers.



**Figure 3.6 :** Astoria Shopping Mall.

Fiba Holding (a Finansbank subsidiary) turned the state's supermarket chain Gima into a relatively up-market one following its privatization in 1993. Currently, Fiba has 60% of the shares of Gima's 54 outlets. Boyner Holding (formerly Altinyildiz) owns the Beymen clothing chain with its 36 outlets (8 owned, 28 franchised), the

Çarsi department store chain with its eight outlets, and the Smart discount chain with two outlets. In addition, Boyner Holding has either licensing or franchising agreements with a few retailers such as the USA's Levi's, Italy's Benetton and Sisley, and France's Tati. These large groups, especially the Koç and Sabanci Holdings are involved in simply too many activities to mention in detail.

With the exception of Koç Holding which became involved in large-scale retailing in 1975 when the holding company bought Migros-Türk, and Boyner Group which has owned clothing stores since 1970, large corporations added retailing to their activities either during the late 1980s or early 1990s. They did this either by signing joint venture agreements with international retailers or by becoming involved in retailing by themselves. Even Koç Holding's involvement is not a real exception, given the fact that only in 1990 did the company's Migros chain experience a restructuring and become an important subsidiary (Akas, 1995).

Among the groups mentioned, Boyner is usually considered the least diversified because of its strong focus on textiles, clothing and footwear. However, even this firm is now active in areas such as petroleum and data processing (Bugra, 1994) *State and Business in Modern Turkey: A Comparative Study*. SUNY, Albany. (Bugra, 1994) Overall, the level of diversification is high among these large-retailing pioneers. In addition to large domestic corporations, a few semi-public retailers (mostly owned and managed by municipalities) have also thrived during the late 1980s and the 1990s. Tansas of Izmir Municipality, for example, has grown from 27 outlets in 1985 to 90 outlets in 1996.

What fails to be indicated is the significant monopolistic powers that these groups have over many production lines. For example, in 1989, Koç (owner of Migros supermarket chain) together with Sabanci (domestic affiliate of Carrefour) had a combined control of 28% of the country's margarine production. The same year, the Koç Holding, by itself, manufactured 52% of the refrigerators and 80.4% of the washing machines in the country (Sönmez, 1992). These groups are large by any standards. For example, Koç Holding controlled 106 companies in 1993 under 11 divisions with annual sales of \$14.45 billion, fixed assets and investments of \$1.68 billion, and pretax earnings of \$1.3 billion. The same year, the Sabanci group's

**Table 3.2 : Company reports.**

Name	Retail subsidiary	Agriculture subsidiary	Food and kindred Production subsidiary	Warehousing and marketing subsidiary	Banking and other services	Non-food production subsidiary - other industries
Sabancı Holding	Carrefour (hypermarket with Carrefour of France)	Sapeksa (soybean, wheat and hybrid watermelon seeds on four farms)	Marsa-KJS (chocolates, coffee, bottled water, margarine and sunflower oil with Kraft Jacobs Suchard) Philisa (cigarettes with Philip Morris)	Exsa (export trading)  Holisa (import trading) Philip Morrisa (cigarette distribution)	Aksigorta, Aklayat (insurance)  Akbank, BNP-Ak-Dresdner (bank) Hiltinsa, Parksa (hotel)  I-Binsa (information services)	Çimsa (cement)  Brisa Bridgestone, Kordisa (ties and tire cord fabric) Bosa, Teksa, Yünsa, İnsa Hefli Weaving (textile)  Toyotasa (automobile with Toyota) Türk Philips (electronic appliances with Philips) Ardem (machinery)
Koç Holding	Migros (supermarket chain) Sok (discount supermarket chain) Koçtaş (DIY)	Tat (tomato seed production)	Aynar (margarine)  Maret (meat and products) Tat (canned food)  Tat-Beytas (tomato processor)	Haliç Antrepo (warehouse)  Düzey (marketing) Temel Gıda (foodstuffs marketing) Tofas Oto (automobile marketing) Otoyol (automobile marketing) Opur (auto parts marketing) Ram (export trading)	Koç Amerikan Bank (bank with American Express)  Sark (insurance)	Bozkurt Mensucat (textile) Aygaz (LPG)  Arçelik (appliances) Tofas (auto)  Bürosan (bureau furniture) Türk Pirelli (ties with Pirelli) Türk Elektrik (with General Electric) Türk Traktör (agricultural machinery) Türk Demiri Döküm (iron and steel) Goodyear (ties with Goodyear) Toros, Akdeniz Gübre (fertilizers)
Tekfen Holding	Götsen (DIY) Makro (supermarket) Kanaçca (knitwear)		Mis Süs-İFC (milk and products)	Tekfen Gıda (foodstuffs marketing)  Tekfen (export trading) Tureks (import – export trading)	Tekfenbank (bank)  Tekfen İnşaat (construction) Toros Uluslararası Nakliyat (international transportation) Transtürk Emlak (real estate)	Tarsan Tarih (agricultural machinery) Birlesik Aydınlatma (lighting systems) Makina Takim (machinery)
Transtürk Holding	Mr. Bricolage (do-it-yourself)				Paktrans (transportation) Transtürk Sigorta (insurance)	Plastas (plastic) Transtürk (chemicals/Optronik (optics and electronics))
Doğus Holding	Continent (hypermarket)		Vize Gıda (foodstuffs)  Filiz Gıda (foodstuffs)  Trakya Gıda (foodstuffs)  Filiz Konserve (canned food)	Doğus Dis Ticaret (import trading) Intrade Corp. (international trading) Sunnydale Ltd. (international trading)	Bank Ekspres  Türkiye Granti (bank)  Birlesik Türk Körfez (bank)  Granti Yatırım Ve Tic. (bank) AGF (insurance) Bank Ekspres (bank) Osmanlı Bank (bank)	Aynak  Aysan Makina (machinery)  Lasas (ties)

Source: [Sönmez (1992)]; [Bugra (1994)]; company reports; interviews.

pretax earnings were \$385.3 million in five core business areas covering all the main segments of Turkish industry. These two dominated the Turkish corporate scene with combined annual revenues of \$20.73 billion in 1993 — equivalent to 12% of Turkey's GDP (Financial Times, 1994). As these groups become more and more



involved in retailing, therefore, there is every reason to believe that the retail structure will be more integrated — horizontally, as well as vertically.



**Figure 3.7. :** Kanyon Shopping Mall.

### **3.1. International Retailers.**

Another significant development in the last decade has been the internationalization of what has been historically only a domestic activity. That is, since the late 1980s, in addition to large domestic conglomerates, international (mostly European) retailers also entered the market by associating with Turkish firms either through licensing agreements or joint ventures.



**Figure 3.8 :** Capitol Shopping Center.

In foodstuffs retailing examples included, among others, Metro International (German) which entered into the market in 1988; Carrefour and Promodés (French) which entered into the market in 1991 and 1992 respectively, and Booker (British) which entered into the market in 1997. In fast-food retailing, the US companies McDonalds, Kentucky Fried Chicken and Pizza Hut entered into the market in the



late 1980s, and Subway and Burger King in the 1990s. French Printemps (1987) and British Marks and Spencer and Bhs (1995) were among the pioneering retailers in the department or variety store category. In the clothing sector many firms entered into the Turkish market by either opening their own stores or through their designer products without opening stores. The examples include, among others, Italy's Benetton and Sisley (1986 and 1991 respectively), the US company Levi's (1989), the British retailer Mothercare (1988), and many others such as Burberry's, Austin Reed, Premaman, Stefanel, Versace, Ermenegildo Zegna, Naf Naf, and Chanel. Recently, the market has become even more diversified: and it is now possible to find foreign retailers in areas ranging from direct selling (the US companies Rainbow and Amway in 1991 and 1993) to do-it-yourself retailing (the US company ACE and the French company Mr. Bricolage in 1994 and 1996), or toys (the US company Toys R Us in 1996).



**Figure 3.9 :** Metrocity Shopping Center.

International corporations' entry into retailing during the 1990s also strengthened the position of the large domestic businesses in the market because of their associations with them. Sabanci Holding (Carrefour hypermarket) Sezginler Gida (Spar supermarket), Süzer Holding (Kentucky Fried Chicken fast food restaurant), Transtürk Holding (Mr. Bricolage hardware store), Boyner Holding (Benetton, Blue Family, Sisley clothing stores) and Türk Petrol (Spectrum Superstore, Wendy's fast

food restaurant and Marks and Spencer department store) are indicators of the co-operation between international corporations and large and diversified domestic businesses. The combined result of thriving large domestic and international retailers has been the emergence and strengthening of corporate power in retailing.

### **3.2. Domestic Traders**

Some exceptionally successful small domestic traders have also experienced an evolution from wholesaling (and to a lesser extent from small-scale retailing) to relatively larger retailing (mostly supermarket chains). The most well-known example of this group in Turkey is the Begendik supermarket chain. It was set up as a family business by a wholesaler in Kayseri in 1986. Since then the firm increased its number of stores remarkably and enlarged its spatial reach from Kayseri to Ankara (1993 and 1995) and then to Istanbul (1996). The supermarket chain today has 10 outlets in the country. There are a few more examples in this category. Hacibeyli, for example, a well-known wholesaler who distributed, among others, the products of Henkel-Turyag, Ovisan, Söke Un, and Gillette in 1996 was behind the Nazar supermarket chain of Ankara (15 outlets). Similarly, in Istanbul there are examples of wholesalers turning into retailing. That is, some exceptionally successful small retailers and wholesalers finally overcame the restraints on competition (sometimes utilizing voluntary buying groupings); and, through organic expansion, entered into relatively large retailing during the 1980s and the 1990s. However, their number is somewhat small; and the majority of small retailers are as capital-weak as they were before the 1990s.

### **3.3. Explanation Of The Transformation**

The recent transformation of the retail sector and its timing has been described elsewhere (Tokatli and Boyaci, 1997). As this study indicates, large scale retailing became a viable option for large corporations when urban populations started to provide retailers with a large, steady and consistent demand for products. At the same time, industrial production together with import liberalizations made it possible to have a large, steady and consistent supply of goods. More importantly, however, the increasing corporate interest in retailing should be understood as part of a wider

process of grounding capital in a secure area. By investing in retailing, large corporations reduce their risk in a not-so-stable economy. They also enjoy the strong cash-flow created through their retail subsidiaries, as well as the security created through their real estate properties. Thus, in addition to the changing dynamics of the retail sector itself, the general context of the economic and policy changes in the country also offers an additional layer of explanation. The increased participation of large businesses in retailing has meant increasing retail concentration with numerous consequences for the society. There are signs that the traditional structure of urban retailing is subject to a change in favor of large-scale retail organizations; and that the geography of large businesses might be quite different from that of small and independent retailers. The difference lies in the fact that for large domestic and international businesses, economies of scale do not necessarily come from agglomeration economies realized through the growth of business clusters. Rather, thanks to their own sizes and organizations, they benefit from some of the economies of scale typically associated with manufacturing. They operate with production functions and sensitivities to scale economies and distribution costs which are different from those of small retailers. Thus they lead to different retail landscapes. The differences in spatial behaviors of small and large retailers are even more pronounced when large retailers are simply subsidiaries of large conglomerations with strong interests in a wide and diversified set of activities which has been the case in Turkey. Their participation has brought a change in the market positioning of the distinct elements of the retail market and a change in the ways of doing business in retailing. Among the consequences (such as introduction of some new store formats, design concepts, management tools and techniques, retail technologies, customer service ideas, a gradual change in tastes and diets, and geographical outcomes) our focus is on the latter. The retailing sector in Turkey is still dominated by large number of small, independent, and single-location retailers: bakkal ( a corner store), manav (a grocer), kasap (a butcher), tuhafiyeci (a draper) and others. They all trade from their own identifiable premises. Capital accumulation is believed to be small, technologies and business organizations are small-scale and simple, and the products sold are mostly domestically grown or made at home. The most easily observable change has occurred in the floor-space size of individual stores.

**Table 3.3 : Retail Apparel Index.**

Rank	Country	Absolute market size	Growth prospects	Consumer affluence	Score
1	Brazil	14	31	15	60
2	Romania	12	34	4	50
3	China	22	23	2	47
4	India	18	27	1	46
5	Argentina	12	27	8	46
6	Ukraine	11	34	0	45
7	Chile	9	21	14	44
8	Russia	15	22	7	44
9	Saudi Arabia	10	16	13	39
10	Turkey	8	27	2	37

Source: A.T. Kearney  
Note: Scores are rounded

### About the Retail Apparel Index

The Retail Apparel Index is calculated by analyzing market, growth and consumer indicators, which are weighted 35 percent, 50 percent and 15 percent, respectively. Market indicators include total clothing sales and imports, total population, youth population, and the presence of international apparel retailers.

Growth indicators consist of the CAGR of total clothing sales, clothing imports, clothing sales per capita, GDP per capita and population growth. Consumer affluence is measured by clothing sales per capita.

Within each metric, a country's value is indexed from 0 to 100 to allow for relative comparisons to be made across metrics. For example, Romania had the highest clothing sales CAGR of 35 percent from 2004 to 2008, giving it a score of 100 points for that metric. Brazil's clothing sales CAGR over the same period was 23 percent, resulting in a score of 65.

Large national and international corporations' retail activities tend to require large floor areas to accommodate the wider variety of goods they carry.

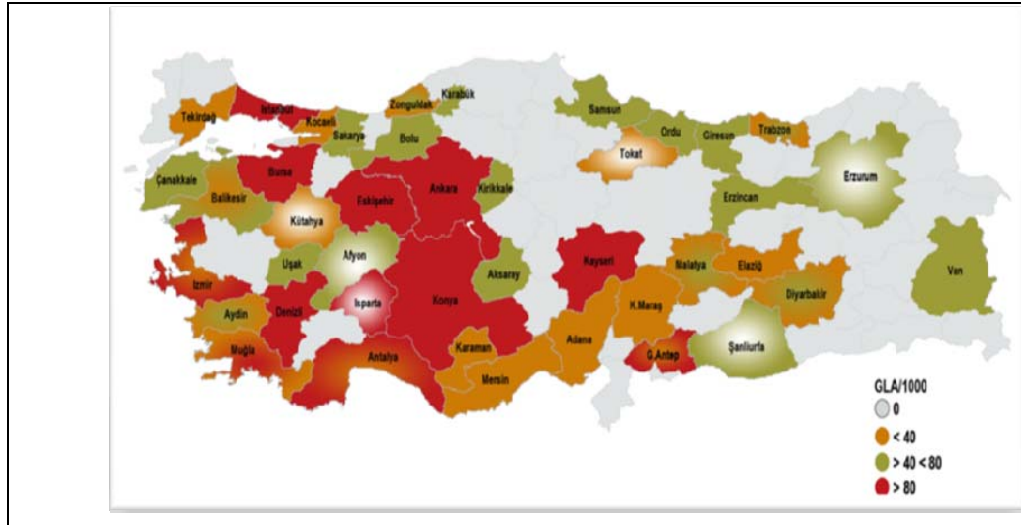


**Figure 3.10 : Market-Fish Market-Grocery.**

They need to sell more. Locational requirements of large retailers are also different simply because self-service stores require more space for the same quantity of articles than do stores in which sales assistants attend to the customers. Accordingly, there has been a recent change in demand for space as the number of large floor-space mass merchandisers such as supermarkets, hypermarkets and department stores has increased.

For example, according to IRI Turkey, there were 55 hypermarkets in the country in 1997 with floor areas between 2500 and 15 000 sqm in Turkish cities. The number

is not very impressive for the country as a whole given that the same year there were over 100 000 bakkals (with less than 100 sqm floor space) in urban areas, while the total number of relatively larger establishments (with more than 100 sqm floor space) in the same category were only 3195.

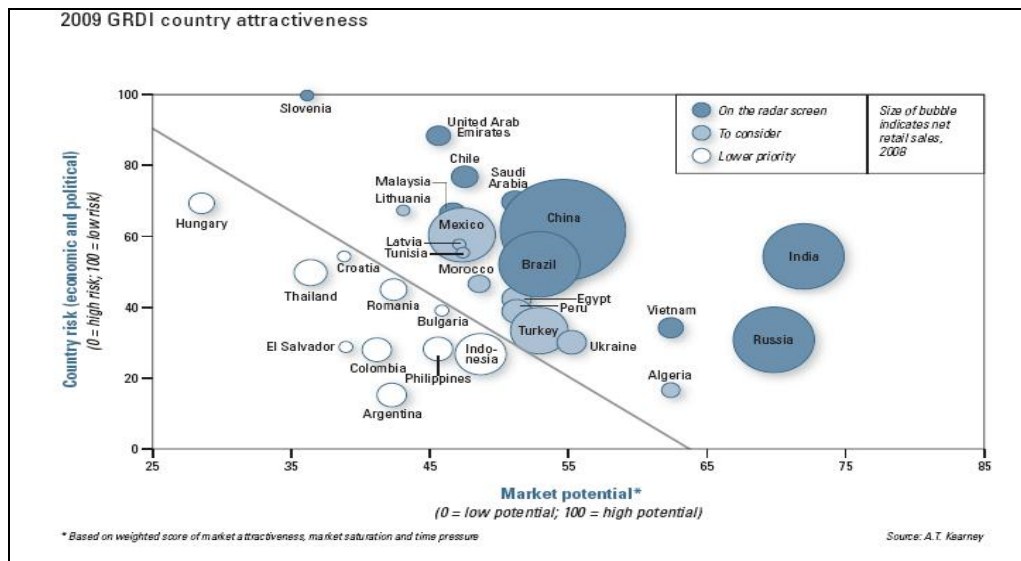


**Figure 3.11 : GLA distribution chart.**

Moreover, most of the large retailers are concentrated in the few largest cities of the country. Thus, their potential to change the traditional structure of urban retailing in large cities is obvious, especially when similar developments in other areas of retailing (such as department stores) are also taken into account.

Most of the hypermarkets need large and free-standing stores (such as Metro International), and many large supermarkets encourage purpose-built shopping center developments (such as Migros in Istanbul's Atrium shopping center or Begendik in Istanbul's Carrousel shopping center), or play a more direct role in the development of their own shopping centers (such as Carrefour in Istanbul's Carrefour shopping center and Migros in Migros shopping center in Beylikdüzü, Istanbul).

Consequently, as the number of large retailers increases so does the number of purpose-built shopping centers. According to the Turkish Association of Shopping Centers, 80 shopping center projects are currently under consideration in the country.



**Figure 3.12 : Country Attractiveness.**

The most well known shopping centers' concentration in a few large cities is noticeable, and the sizeable enclosed areas are worthy of attention. Their dates of opening and anchor retailers give clues concerning the relationship between the emergence and strengthening of large retailers and the development of such centers.

## 4. CASE STUDIES

### 4.1 Objectives

The objectives of analyzing the changes in retail sector since 1980s is to conclude that these changes are dependent on the trends followed in the world, although the direct impact on the changes seem to be dependent on the target market preferences.

### 4.2 Methodology

The methodology of the case studies in the thesis work is based on the social-economical differences between the shopping malls selected in three different secondary cities.

Diyarbakır, Adapazarı and Denizli are the “secondary cities” chosen for their strong growth potential in three different regions of Turkey. The scope of this work is to conclude the differences in developing retail projects in different social-economical scales in different cities based on the specific criteria search. The cities are explained for their demographical and social-economical specifications below in detail.



**Figure 4.1 :** Diyarbakır province map.

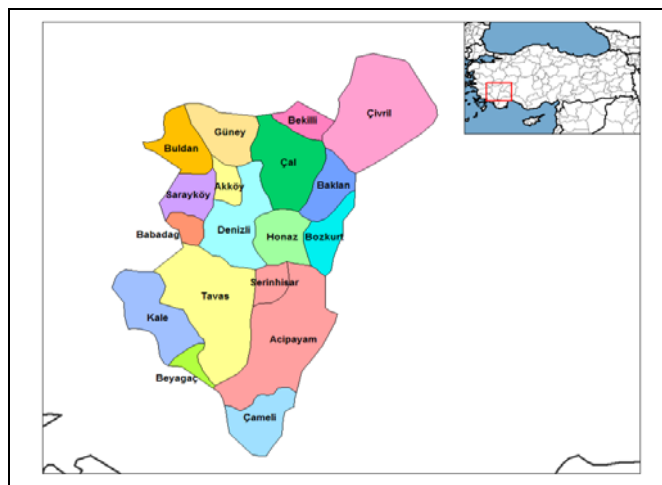


Diyarbakır is located at the southeast of Turkey, covering total of 15.355 sqkm. Demographic indicators for Diyarbakır show the growth potential and the needs for developments in the city. The locational disadvantage can be eliminated by investments and developments brought to the city.



**Figure 4.2 :** Views from Diyarbakır.

Total population is 1.377.143 and population growth pa 3.17%. Economic indicators are; GDP per capita is 3,846 USD (for 2009), catchment (30 minutes) is 664,567 inhabitants, total agglomeration is 720,000 inhabitants. Dispersion on shares of sectors are 21% governmental, 22% agricultural, 18% industrial, 6% construction, 14% trading, 13% transportation and 6% other. There is a local university (Dicle University) with 18.600 students in Diyarbakır. Denizli is a province of Turkey in western Anatolia. Neighbouring provinces are Uşak to the north, Burdur, Isparta and Afyon to the east, Aydın and Manisa to the west and Muğla to the south.



**Figure 4.3 :** Denizli province map.



The city in the Aegean region which is mostly famous for its textile and especially fabric products is Denizli and the city owes their economical growth to the textile industry.



**Figure 4.4 :** Views from Denizli.

Denizli's total population is 907,000 in 2009. Total households are 130,000. Total population of Turkey is 70,6 million and share of Denizli is 1.28%. Annual average population growth in Denizli is 0.57% while it is 1.26% in Turkey. Urbanisation rate in Denizli is 51% in 2007. Urban population is 461,000 (2009 MERNIS data). Sources of the population growth in Denizli are 30% migration and 70% urban population growth.

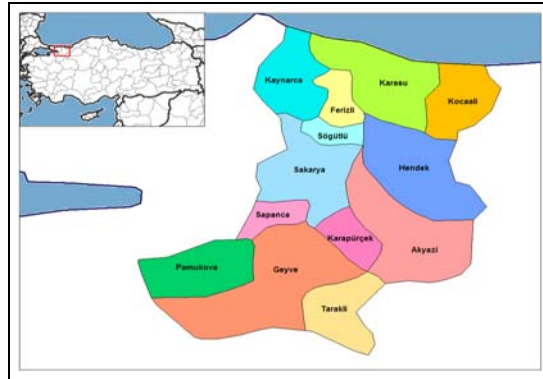
Denizli ranks 23<sup>rd</sup> in population, 13<sup>th</sup> in economic activities and 9<sup>th</sup> in development of industry. Denizli's expanding industry and commerce results in \$1,2bn. worth of exports annually.

Industry and tourism are very well developed in Denizli. The city is socio-culturally matured. The city has fast- growing economy with its \$1.2 bn. worth of annual export. Per capita income is higher than Turkey average. Denizli has high population growth, migration and urbanisation rate.

The reasons for investing in Denizli are:

- Denizli is one of Turkey's most dynamic and fastest growing provinces.
- Denizli is a center of tourism which draws around 2 million tourists every year.
- Transportation is varied and developed.

- Denizli has high population growth rate.
- Denizli has high migration rate.
- Denizli has rapid urbanisation movement and socio-economic development level is high.
- Education level is high.
- Industry and tourism are well developed in the city.
- Denizli has a fast-growing economy with its \$1.2 bn. worth of exports annually.
- Per capita income is higher than Turkey average.
- Urban transformation is very fast, new residential areas are born.
- Denizli is becoming a regional power in Aegean Region.
- Pamukkale is selected as the World heritage and Karahayit and Kızıllağın regions as a matter of thermal health tourism.
- Denizli habitants are being culturally transformed to metropolitan city life.



**Figure 4.5 :** Adapazarı province map.

Adapazarı province which is known as Sakarya is located in Marmara Region of Turkey. The city has a population of 835,822 (as of 2010). Area of the city is 4,817 sqkm and annual average population growth is %1.13. Urbanisation rate is 60.81%

and population density is 173, where the number is 92 for Turkey's average. Total households are 167,487.

Adapazari ranks in the first quarter of the total provinces amongst the most developed provinces. Adapazari is 20th developed subdistrict amongst the total 872 subdistricts in Turkey.

Primary education rate is 100% and high school education rate is 65%. The city has Sakarya University, that has 8 faculties, 3 high schools and 2 research institutes for its 29,000 students.

According to the Social Security registrations Sakarya comes first with its 22% unemployment rate amongst all provinces. The employment areas are mostly in agriculture and industry.

The possible reasons for investing in Sakarya are;

- Sakarya is one of Turkey's most lively and growing provinces.
- Sakarya is a center of nature and health tourism which draws tourists every season of the year.
- Transportation is varied and developed.
- Sakarya has a quite high population growth rate, rapid urbanisation movement and socio-economic development level is high.



**Figure 4.6 : Views from Adapazari.**

- Literacy level is high and increasing every year.

- Industry and agriculture are well developed in the city. Toyota has its production facility in the zone.
- Koç Holding, Toprak Holding, Ülker Group, Otokar, Otoyol, Tırsan, Good Year, Pilsa, Yazakisa are the large-scale companies that preferred to invest in the region.
- Urban transformation is fast, new residential areas are being born.
- Sakarya is becoming a regional power in Marmara Region.
- Sakarya habitants are being culturally transformed to metropolitan city life.

### **4.3 Examination Of Cases**

The cases that are to be examined is selected among a variety of examples in order to reflect the best details about the process of retail land development.

The data of these projects are reached by permission of the developers and the reason behind the selection of these examples are focused on the availability of practical data. Especially the acquisition types, financing, feasibility and drawings are the hardest and most private data to be shared for the development projects, to be used in a study covering more than one case.

#### **4.3.1 Case Study On Babil Mall Shopping Mall, Diyarbakır**

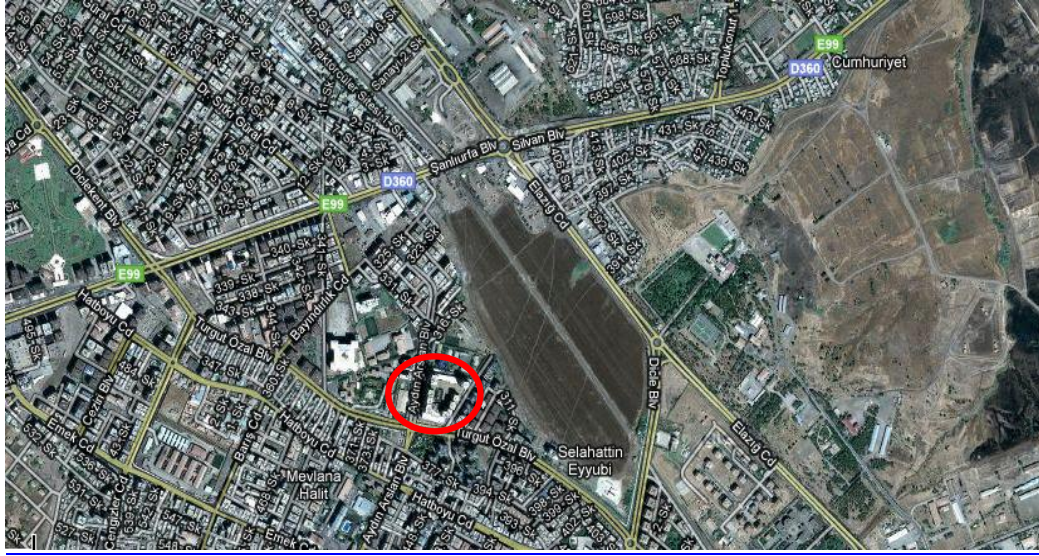
- **Land Assembly And Identification**

The land of Babil Shopping Mall is in the center of Diyarbakır province. The specification of being the largest shopping mall in the city is a plus for the project itself because the city needs the development.

The net land area of the project is 18,010 sqm. The location of the land is on the main artery of the city center. In the close proximity, there is a dense residential and business area.

The social-economical level of the residents in the environment is mainly upper and upper-middle class. Also, the public transportation to the project land is currently working.





**Figure 4.7 :** Location on google map.



**Figure 4.8 :** Location on google map.

- **Feasibility**

The land of the project has a “Commercial” zoning legend. The F.A.R. is 1.5 so that according to the current zoning plan requirements, the gross construction area (GCA) is 24,482 sqm. The social-economical researches in the city show that because of the climate (hot and dry weather in summer and strong cold in winter) conditions, potential visitors for the shopping mall are over the expected numbers. To speak more precisely:

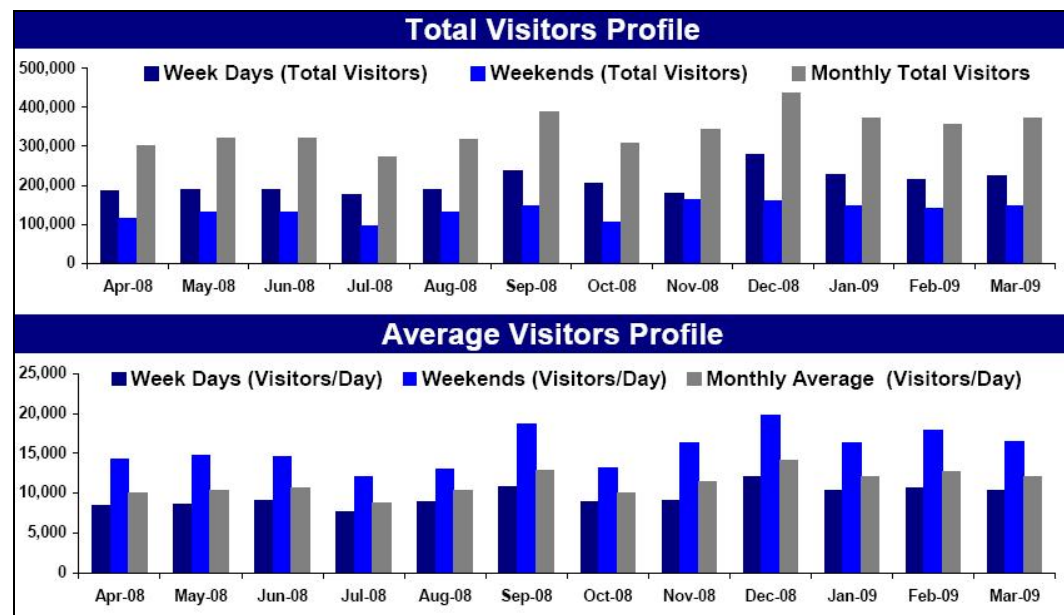
As shown on the table, due to the surveys done in the region on the other visitors of other competitor shopping malls, the number of people spending time in shopping malls is resonably high.

The major competitors in the city and their GLA information are shown below:

Mega Center with GLA 14,000 sqm,

Diyar Galeria with GLA 10,000 sqm,

Stand alone supermarkets; Migros & Carrefour.



**Figure 4.9 : Visitors statistics.**

- **The Deal Progress And Acquisition**

The owner of the land is also the developer of the shopping mall so that there is not a deal or acquisition process during the development and project drawing period. Only the deal is the F.A.R. provided by the Municipality in the process and because of the close relationship between the city Municipality and the developer, the F.A.R. is increased in order to enlarge the concept of the project and make the project the largest investment in the city in retail and residential sector.

The owner of the Babil Shopping Mall project is one of the strong local person in Diyarbakır. In the culture of Diyarbakır, people belong to some widely-known family



groups and mostly there is a leader of each family group that supports and backs up their family members. The owner of the project land is one of those leaders in Diyarbakır. This case helps them to develop their own country by investing and by bringing the opportunities to their people from other cities or countries.

By this way, they develop their countries and people. They provide employment, a different vision and attractiveness for their country.



**Figure 4.10 :** Location on google map.

In the planning phase of the project, the Municipality helped the developer in order to provide easy environment for the development. This is an important case for a growth center like Diyarbakır. Because of the topography and the climate conditions in Diyarbakır, mostly the developments cannot find a place to realize. This project takes part in the middle of the city center and the highest aim of the development is to increase the social-economical development level by providing employment for the citizens.

- **Drawings And Concept Design**

The concept design for the project is planned by reviewing the needs of the city that has not yet provided. These are mainly; a fitness center with indoor and outdoor pool, city club, movie theatre, pool bar and a lifestyle center.

The catchment area of the project is the environmental residential projects. The potential visitors live in 10 minutes walking distance to the mall and also the public

transportation system is currently carried out on the road in front of the mall. The shopping mall has 5 floors and 59 stores. The mall also has 24,482 sqm GLA and 23,082 sqm of this area is reserved for shops. There is a storage area of 1,400 sqm for the shops in the basement floor. The parking capacity is for 314 cars. The floor breakdown of the mall shown on the figure below:

**Table 4.1 : Functional dispersion.**

<b>FLOORS</b>	<b>FUNCTION</b>
<b>-2 Floor</b>	<b>Car park</b>
<b>-1 Floor</b>	<b>Car park, cinema, entertainment</b>
<b>Ground Floor</b>	<b>Shops</b>
<b>+1 Floor</b>	<b>Shops, food court</b>
<b>+ 2 Floor</b>	<b>Fitness, pool, offices</b>

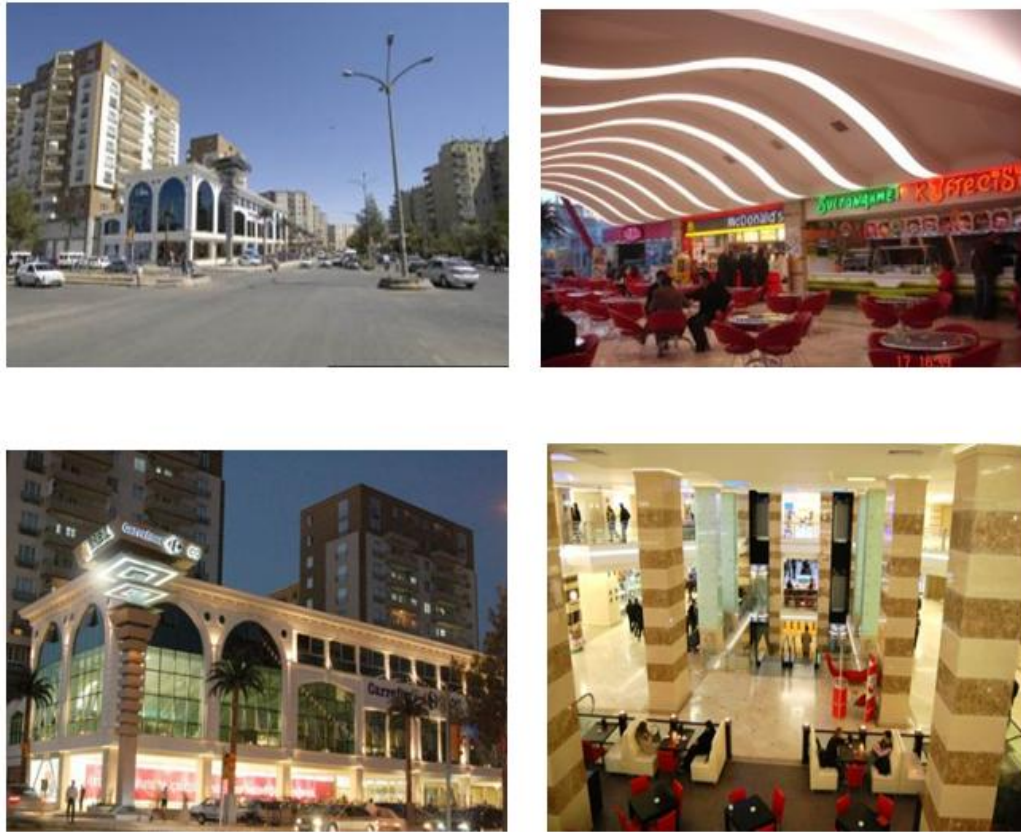
The mall is designed for entertainment aim and a life style center. The theme of the mall is to be center of attraction for Diyarbakır citizens. The people come to visit the mall both for shopping and having fun time. The pool, the entertainment facilities such as movie theatre and bowling are especially designed on one floor to underline the concept.

- **Financing The Project**

The hardest part of this shopping mall project is the financing phase. The reason is; the national and international financial situations are not willing to be involved in projects outside the metropolitan areas in Turkey. They find the risk assesment of the southeastern parts of the country high enough not to provide loan.

It does not matter that the project seems to be successful, the banks and financial funds seeks for projects that have minimum risk premium because they also have the construction completion risk at the same time with the developer. In some aspects, these corporations may be correct but the facts of this country is that, the south and





**Figure 4.11 : Pictures of Babil Shopping Mall.**

southeastern parts are less developed and need investment and these investments must be supported both financially and theoretically. Apart from this example, the international giant retailer “Multi” also could not supply and financial support for their “Forum Diyarbakır” project and the project is withheld.

The Babil Shopping Mall construction financing is secured by the developer himself. The construction cost exceeded approximately 20 M USD.

- **Operations ; Center Management and Marketing**

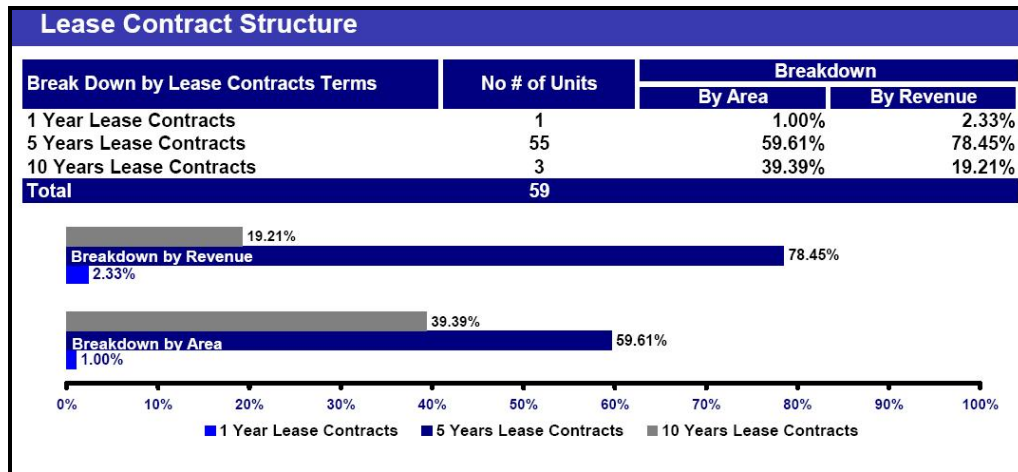
Operations for the shopping mall are held by MLM and the shopping center is fully occupied. The vacancy rate is approximately %0 . The major tenants are for supermarket Carrefour and for anchor tenants Kimlik Mağazaları, Teknosa and Mudo. The shop mix table is shown below on the table:

**Table 4.2 : Shop mix chart.**

Shop-mix				
Breakdown by Stores	No# of Units	Leased Areas	Breakdown	
			Area	Revenue
Anchor Stores	5 Units	14,079 m <sup>2</sup>	57.5%	32.7%
Large Units (300-1.000m <sup>2</sup> )	7 Units	3,146 m <sup>2</sup>	12.9%	16.8%
Mid Size Units (150-300m <sup>2</sup> )	17 Units	2,982 m <sup>2</sup>	12.2%	26.2%
Restaurants & Cafe's	13 Units	1,883 m <sup>2</sup>	7.7%	12.0%
Small Units (>150m <sup>2</sup> )	15 Units	992 m <sup>2</sup>	4.1%	9.3%
Storage Area	1 Units	1,400 m <sup>2</sup>	5.7%	3.0%
	58 Units	24,482 m <sup>2</sup>		
Breakdown by Shop-mix	No# of Units	Leased Areas	Breakdown	
			Area	Revenue
Children	4 Units	1,066 m <sup>2</sup>	4.4%	4.8%
Clothing & Textiles	16 Units	6,323 m <sup>2</sup>	25.8%	23.9%
Electronics & Hardware	5 Units	948 m <sup>2</sup>	3.9%	9.0%
Entertainment	3 Units	6,186 m <sup>2</sup>	25.3%	17.8%
Market - Restaurants & Cafe's	13 Units	6,001 m <sup>2</sup>	24.5%	23.2%
Health & Cosmetics	3 Units	771 m <sup>2</sup>	3.1%	6.3%
jewelry - Accessories & Giftware	8 Units	406 m <sup>2</sup>	1.7%	4.0%
Leather & Shoes	1 Units	635 m <sup>2</sup>	2.6%	4.3%
Service	5 Units	2,086 m <sup>2</sup>	8.5%	6.0%
Vacancy	1 Units	60 m <sup>2</sup>	0.2%	0.7%
	59 Units	24,482 m <sup>2</sup>		

The major food court tenant is McDonald's and this is the first anchor hamburger restaurant in the city.

**Table 4.3 : Lease structure.**



To state the “firsts” in the city, almost every anchor tenant in the mall meets Diyarbakır for the first time. This fact also helped the mall to be the major meeting point in the city also for tourists as well as for the citizens.

### 3.3.2 Case Study On Serdivan Shopping Mall, Adapazari

- **Land Assembly And Identification**

The land of Serdivan Shopping Mall is in the center of Serdivan region, which is approximately 3 km from the Adapazari city center. The Çark Street of Adapazari is the open-air shopping district of the city and the subject land is approximately 2 km. away from that street. The mall has a specification of being the first and only shopping mall in the region .

The land of the project is 23,817 sqm. The adjacent plot has 45,000 sqm surface area and planned as a recreational center. Because the owner of the both plots is the Municipality, there is an approval for the 4,000 sqm part in the recreational area to be used as open-parking area for the commercial plot.

Because the land is very close to the city center and there are no likely single large plots are available in the region, the price becomes higher compared to the smaller plots around. But there is no doubt that after a large commercial shopping mall is developed on the plot, the land becomes more prestigious and have a higher value than before. By these facts in hand, the bargain power is on the developer side. The land is not acquired in this case, but the development profit is shared between the Municipality and the developers.

The land assembly process is easy for the case because there is not such a large commercial land in the environment and the zoning requirements are ready for the shopping mall development.

The “Commercial” zoning regulations have the provisions for a shopping mall project or an office project for the region. The most needed development type for Serdivan is a shopping mall and the best piece of land to develop a feasible project with a minimum cost is to construct the project on a land based on “flat sharing” model. The land belongs to the Municipality or to a Government party, the developer constructs the project and the freehold titles are separated based on the ownership.

In this commercial development project case, the land belongs to the Municipality and the developers have the advantage of the governmental procedures.



**Figure 4.12 :** Location on google map.



**Figure 4.13 :** Architectural drawing.

- **Feasibility**

The subject land has “Commercial” zoning according to the zoning plans. Based on existing zoning requirements, allowable above ground and under ground Gross Building Area (GBA) figures are 49,242 sqm. But by adding some extra galleries or atriums to the project, the Municipality lets a 10% additional area except the construction permit.





Because there is only one shopping center except the subject project in Adapazarı and the existing GLA is 25,000 sqm; there is a high potential in a shopping mall development and the advantage of the project in the city is the location.

The currently operating shopping mall is located out of the residential area and the only way for commuting there is public or private transportation. Its location is the major disadvantage for Ada Center. Serdivan Shopping Mall is located in the new residential area very close to the city center. Pedestrian walking will be an advantage against its competitors.

The market competition and the potential rivals of the mall project :

**Table 4.4 : Competitors in the region.**

SHOPPING MALL	LOCATION	ICSC SCALE	DEV. QUALITY	ANCHOR VARIETY	SHOP MIX	TARGET GROUP	VARIETY	FACILITY	MANEG. QUALITY
<b>ADA CENTER</b>  Out of Town  Mid. Scale Shopping Mall	Erenler  Commercial-Industrial Area  Insufficient Pedestrian Coverage	22,500 m² GLA  Traditional Mid Scale Mall	Corio  High Quality Development Capacity	7,000 m² GLA Carrefour Hypermarket  High Quality Anchor	92 Shops  Mid-Upscale Brands	A,B+ , B and C Income Groups  No obvious client segmentation	Kids, Sport, Women and Men Wear, Shoe, Home Textile, Kitchen, Decoration, Jewellery, Leather, Cosmetics, Accessories Electronics, Culture, Optics	Cinema  Leisure  Food Court	MLM Consulting  Outsourced Management  Moderate Quality Management Capacity
<b>NEO CITY SHOPPING MALL</b>  Out of Town  Large Scale Shopping Mall	Adapazarı  Out of Settlement Area  Insufficient Pedestrian Coverage	55 -70,000 m² GLA  Traditional Large Scale Mall	Krea  High Quality Development Capacity	Not available	158 Shops  Allows Sufficient Variety	A,B+ , B Income Groups	Not available	Cinema  Leisure  Food Court	Reval  Sister Company  Moderate Quality Management Capacity
<b>SERDIVAN SHOPPING MALL</b>  Residential Area  Mid. Scale Shopping Mall	Serdivan  New Residential Area Sufficient Pedestrian Coverage	27,338 m² GLA  Traditional Mid Scale Mall	Ada-Yat  High Quality Development Capacity via professionally outsourced services	2,518,00 m² GLA Migros Hypermarket and 3,773,00 m² GLA Koctaş 1,558,47 m² Boyner  High Quality Anchors	118 Shops  Allows Sufficient Variety	A,B+ , B Income Groups	Hypermarket, D.I.Y, Department Store, Family Store, Electronics, Women and Mens Wear, Home Textile, Jewellery, Accesories, Kids, Shoe, Cosmetics	Family Entertainment Center  Cinema  Food Court	Not available  Will be outsourced to High Quality Management Company

The adjacent parcel is planned as an approximately 45,000 sqm recreational center and will also be developed and financed by Ada-Yat Gayrimenkul despite the parcel is not in the boundry of the shopping mall parcel.

By the Municipality approval, a 4,000 sqm plot from the recreational area will be used as open parking area in addition to the one on the shopping mall parcel. Together with the recreational area, Serdivan Shopping Mall is expected to

create a synergy between the facilities and will be the most attractive point in the city.

The mall is planned to have a teflon covered roof that will enable the natural light to be brought in. Food court and leisure area will be covered glass facades and located on the top floor for both facilitating from the natural light and the view.

- **The Deal Progress And Acquisition**

Land owner is Serdivan Municipality. Ada-Yat Gayrimenkul has won the open bid for the land and consequently made a partnership with Serdivan Municipality.

Ada-Yat Company, which has a good local reputation in the city, offered 75% area share for itself, leaving 25% to Serdivan Municipality in the mall project. Proceeding this deal, Ada-Yat has leased the Municipality's units for 585.000 USD per annum in order to operate the mall with one single management&leasing company not to ruin the planned concept and shop mix in advance. After official abandonments process the land was registered to Map 27J2 / Section 132 / Parcel 2 under Sakarya Province, Adapazarı Subdistrict, Serdivan Village. Due to the project concept, targeted shop mix mostly includes local and international chains for middle and upper middle income groups. There are 118 independent units assigned with the shop mix, 104 of them owned by Ada-Yat Gayrimenkul and 14 of them owned by Serdivan Municipality (Serdivan Municipality organized open bid for leasing 14 units and Ada-Yat Gayrimenkul won the bidding. Ada-Yat will pay appx. \$600.000 annual rent for 14 units for 10 years).

- **Drawings And Concept Design**

Drawings and concept design of the mall is based upon the feasibility of the project and the environmental factors. These factors are especially decided by researching the income figures of the neighbourhood. The first catchement zone of the mall is the residential projects in Serdivan, the newly constructed town after the earthquake.

Some agreements are already signed between the tenants and the mall management. For example, Migros and Koçtaş will be the driver tenants of the mall. Boyner is the third tenant that signed the agreement as the department store of the project.

The mall is planned for a hypermarket and D.I.Y anchor besides a movie theatre and leisure units like bowling. Basement floor will be allocated to home textile, electronics, child wear, cafe and bowling. Ground floor will be allocated to hypermarket, D.I.Y, men and women's wear, accessories. First floor will be allocated to sports wear, casual wear, shoe stores and men&woman wear. Second floor will be allocated to food court and cinema.



**Figure 4.16 :** Exterior drawings.

Some concept design works are shown above. The outside siding is especially chosen to be colorful in order to symbolize the high energy of the mall. The area dispersion of the interior building is planned as :

**Table 4.5 :** Area dispersion.

FLOORS	GCA
-1 Floor	16,045
Ground Floor	14,816
+1 Floor	14,816
Roof + Suspended Floor	12,857



The opportunities that the project has in its climate are:

- ✓ Power of triple anchors MİGROS, KOÇTAŞ and BOYNER.
- ✓ They will create serious attraction for the costumers for their daily needs.
- ✓ MİGROS is well known and favorite hypermarket brand accross Turkey.
- ✓ KOCTAS will be the first D.I.Y market in Adapazarı.
- ✓ BOYNER offers reasonable prices for quality goods.
- ✓ Effective and sustainable shop-mix for the community of Adapazarı.
- ✓ Leisure, entertainment and food court units will be major attraction points.
- ✓ Serdivan Shopping Mall is located in the new and developing city center and surrounded by the residentials.
- ✓ Close proximity to the traditional shopping zone of Adapazarı - Çark Street.
- ✓ Neighbouring area is planned to be developed as “Residential Area” and this part of the city is expected to be one of the most favorable residential area in the mid-term.



**Figure 4.17 :** Interior drawing.

- ✓ Regional Shopping Center will attract customers around the region as well as Adapazarı habitants.

- **Operations ; Center Management and Marketing**

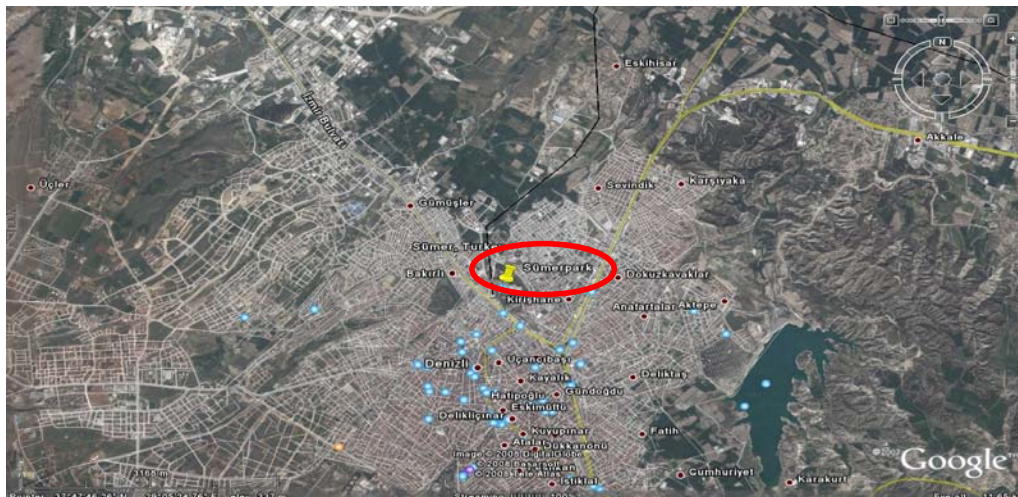
Operations center management and marketing of the mall is held by MLM consultancy. For the shop mix and the concept sustainability of the project, it is the best way for a shopping mall to be leased and managed by the same company so that MLM is the only authorized company for the mall project. When the construction level is around 70%, the mall is ready for leasing and the tenants are carefully elected in order to provide the highest efficiency from the lease contracts. Also, the value of the contracts and the time periods of the contracts define the value of the mall accordingly, the best and the most reliable tenants are chosen throughout the candidates.

#### 4.3.3 Case Study On Sümerpark Shopping Mall, Denizli

- **Land Assembly And Identification**

The land of Sümerpark Shopping Mall is located on Northern Denizli on İzmir Road, former Sümerbank factories.

Sümerpark is a mixed-use project in Denizli, including Shopping Mall, Residence, Hotel and Hospital facilities on a 98,418 m<sup>2</sup> plot. The plot has been divided for independent use of the facilities. Planned “Shopping Mall” project has 47,709 m<sup>2</sup> land area, 50,555 m<sup>2</sup> GLA and 75,773 m<sup>2</sup> closed construction area excluding 50,303 m<sup>2</sup> underground car park.



**Figure 4.18 :** Location on google map.



**Figure 4.19 :** Location on google map.

The project is developed on 4 separate plots next to each other. Each plot is developed as a single project exceeding a mix-use project at the end. The below table shows the plot dispersion.

**Table 4.6 :** Plot dispersion.

Section 6224	Parcel 1	34,421 m <sup>2</sup>	Residential
Section 6225	Parcel 1	5,543 m <sup>2</sup>	Hospital
Section 6226	Parcel 1	47,709 m <sup>2</sup>	Shopping Mall
Section 6227	Parcel 1	10,745 m <sup>2</sup>	Hotel
		50,549 m <sup>2</sup>	Roads and Public Parks

Land owner was Sümerbank and the plots are the former Sümerbank textile factories. The land was registered to Map 71 / Section 612 / Parcel 7 under Denizli Province, 2nd. Region, Sümer – Dolapaltı Area. The plots were out of the settlement area of the city but as the time goes by and the city enlarges with the increasing population, the factories took place in the middle of the city center. The city has many shopping malls compared to the other cities in Turkey but there is not any other example for a project like Sümerpark because the project has four different concepts within; hospital, residential, shopping mall and a hotel.



- **Feasibility**



**Figure 4.20 :** Architectural drawing.

Based on existing zoning requirements, allowable above ground and under ground Gross Construction Area (GCA) figures are depicted below:

**Table 4.7 :** Functional dispersion.

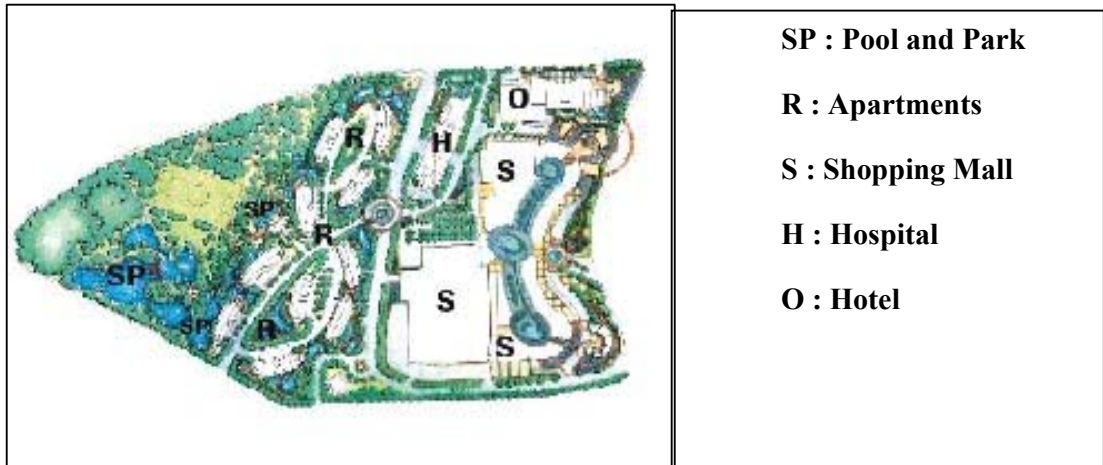
FUNCTION	LAND AREA M <sup>2</sup>	ALLOWABLE GBA M <sup>2</sup>	ABOVE GROUND GBA M <sup>2</sup>	BELOW GROUND GBA M <sup>2</sup>	TOTAL GBA M <sup>2</sup>
Apartments	34,421	82,610	90,871	17,500	108,371
Shopping Mall	47,709	76,334	76,334	96,313	172,647
Hotel	10,745	22,565	22,565	7,500	30,065
Hospital	5,543	9,700	9,700	5,000	14,700
Roads & Public Parks	50,549				
Total Area	148,957	191,210	199,471	126,313	325,784

Denizli SÜMERPARK is a mixed use project which has been built on a 149,000 m<sup>2</sup> plot, covering 325,000 m<sup>2</sup> total construction area, having 605 residential units, a 50,555 m<sup>2</sup> GLA shopping mall, a 180-room 5 star hotel and a full service hospital unit.

The current location of the plots can be evaluated as ideal location for a mixed-use project. The plots have a functional dispersion as shown on the figure below:



**Figure 4.21 : Functional map.**



**Figure 4.22 : Plot map.**

- **The Deal Progress And Acquisition**

The acquisition of the project land process is not so complicated. The former owner of the plots Sümerbank is an old and disfunctional company with valuable assets in. The developer of the project is a well-known national REIT so the bargain process

was though. At the end, the buyer and the seller agreed and the land owner is Kentsel Gayrimenkul Yatırım Danışmanlık Planlama A.Ş.

The competition between the project and the currently operating shopping malls are researched and summarized on the table below:

**Table 4.8 : Competitors in the region.**

SHOPPING MALL	LOCATION	ICSC SCALE	DEV. QUALITY	ANCHOR VARIETY	SHOP MIX	TARGET GROUP	VARIETY	FACILITY	MANEG. QUALITY
<b>TERAS PARK</b>  Denizli focused Upscale Mall	Yenişehir  Residential Area Sufficient Pedestrian Coverage	46,500 m² GLA  Traditional Big Scale Mall	Tan Family  Moderate Development Capacity	11,000 m² GLA Carrefour Hypermarket  Moderate Quality Anchor	137 Shops  Upscale Brands	A,B+ , B Income Groups	Kids, Sport, Women and Men Wear, Shoe, Home Textile, Kitchen, Decoration, Jewellery, Leather, Cosmetics, Accessories Electronics, Culture, Optics	Bowling  Cinema  Ice Skating  Leisure  Food Court	Alkas Consulting  Moderate Quality Management Capacity
<b>FORUM ÇAMLIK</b>  Denizli focused Mid.scale Mall	Çamlık  Residential Area Sufficient Pedestrian Coverage	34,000 m² GLA  Traditional Middle Scale Mall	MultiTurk Mall  High Quality Development Capacity	4,500 m² GLA Migros Hypermarket  Moderate Quality Anchor	125 Shops  Sufficient Variety	A,B+ , B and C Income Groups	Kids, Sport, Women and Men Wear, Shoe, Home Textile, Kitchen, Decoration, Jewellery, Leather, Cosmetics, Accessories Electronics, Culture, Optics	Bowling  Cinema  Ice Skating  Leisure  Food Court	MultiTurk Mall  High Quality Management Capacity
<b>SÜMER PARK</b>  Aegean Region Focused Mall	Sümer  Residential Area Sufficient Pedestrian Coverage	50,555 m² GLA  Traditional Big Scale Mall	Kentsel Gayrimenkul  High Quality Development Capacity	11,642 m² GLA Tesco Hypermarket and 7,013 m² GLA Koctaş  High Quality Double Anchors	n.a.  Current GLA Allows Sufficient Variety	A,B+ , B and C Income Groups	Hypermarket, D.I.Y, Department Store, Family Store, Electronics, Women and Mens Wear, Home Textile, Kids, Shoe, Cosmetics	Family Entertainment Center  Cinema  Food Court	n.a.  Will be High Quality Management Company

Kentsel Gayrimenkul Yatırım Danışmanlık Planlama A.Ş. is 100% subsidiary of Pera Gayrimenkul Yatırım Ortaklığı A.Ş. (PERA REIT). Kentsel Gayrimenkul Yatırım Danışmanlık Planlama A.Ş. will be merged with PERA REIT. Official application for the merger is in Capital Markets Board of Turkey (SPK).

Pera REIT is a public company, traded on Istanbul Stock Exchange. Pera REIT is owned by Global Yatırım Holding (40,42%), Avrasya Yatırım Holding (7,71%) and Public (51,87%).

The land of the project is located in the city center, not so far away. The location factor affects the price of the land much more than the other criteria. The zoning legend of the land is not different before so with some slight change, the project became applicable. These factors also raised the price of the land up and the land

became a bit more valuable. But a reliable developer is also another plus for the buyer side criteria. Pera REIT is a brand and there is a mix-use and prestigious project is considered to be built. The acquisition price of the land is not far below the market prices but the factor that the land will be more and more valuable with a concept project like Sümerpark on, so the bargain process is on the buyer side. PeraREIT acquired the land with a price lower than the market level by %35-%40 and this process also decrease the cost in the cash flow chart in favor of the developer.

- **Drawings And Concept Design**

Drawings and concept design of the project is based on the feasibility done before. The needed sectors that are less than they must be in the city are decided and the most important outcome of the feasibility and the market survey is a hospital is an urgent need. The planned shopping mall is going to be a hypermarket and a home improvement anchored mall. The mall will also include a family entertainment center, a movie theatre and food court units. Planned Shopping Mall has 47,709 sqm land area. 2 floors above the ground and 3 floors below the ground. Total 75,773 sqm Gross Building Area (FAR=1,60 within 76,334 sqm allowable GBA). Car parks 50,303 sqm for 1,655 cars. Total 126,076 sqm GBA.

The opportunities that the project has in its climate are:

- ✓ Power of double anchors TESCO and KOÇTAŞ. They will create serious attraction for the costumers for their daily needs.
- ✓ TESCO will be the largest hypermarket in Denizli, which is also very well known and favorite brand in both Aegean Region and Denizli. Effective and sustainable shop-mix for the community of Denizli.
- ✓ YKM and C&A offer reasonable prices for quality goods. ELECTROWORLD, electronics market and KOÇTAŞ, D.I.Y market will be the unique examples within Denizli.
- ✓ Sümerpark is located in the city center and in the traditional shopping zone of Denizli. Environment to be a business district, with the developing “Avenue of Banks”.



**Figure 4.23 :** Architectural drawings.

- ✓ The environmental area is planned to be developed as “Urban Transformation Area”, and this part of the city is expected to become one of the most favorable residential area in the mid-term. Regional Shopping Center will attract customers around the region as well as Denizli habitants.
- ✓ The below table shos the functional dispersion over floors :

**Table 4.9 :** Functional dispersion.

FLOORS	GBA	PARK	CARS	SHOPS	HYPER MARKET	D.I.Y.	MOVIE THEATRE	TECNICS SERVICE	CIRCULA TION	OFFICES
-3	28,403	25,456	848	0	0	0	0	2,239	708	0
-2	28,260	24,847	807	0	0	0	0	2,705	708	0
-1	25,604	0	0	10,920	0	7,007	0	46	7.631	0
Ground	27,776	0	0	10,307	11,661	0	0	55	5,752	0
+1	15,720	0	0	7,668	0	0	2,991	55	5,006	0
+2	314	0	0	0	0	0	0	12	95	207



- **Financing The Project**

JOGGING TRACK  
 PERFECT PARK  
 SWIMMING POOL  
 RESIDENTIAL  
 FOUNDATION  
 FOUNDATION  
 FOUNDATION  
 HOTEL SWIMMING POOL  
 CASE TERRACE  
 WINDMILL WALL  
 LANDSCAPE PLANTING  
 SCULPTURE & FOUNTAIN  
 SUNBATH TERRACE  
 WINDMILL WALL  
 LAKE  
 PIER  
 RESIDENTIAL  
 PIER  
 WALKWAY  
 EXISTING WOODS  
 TESCO

The whole project is a mix-use project consisting of residential, shopping mall, hospital and hotel units and the construction started from shopping mall and residential units. The residential units have a positive factor inside; while the construction works continue, the project can be sold based on the scale model of the project. This factor provides the whole project a financial backing. By the way, while the financial institutions are raising funds for the project, on the other hand the project starts to finance itself. This happening minimizes the completion risk and the construction risk of the project at the same time. Also, the developer is a REIT and

there is a confidence environment based on the reputation of the developer; Pera REIT.

- **Operations; Center Management and Marketing**

Break-down of monthly and annual rents and turn-over rents will be presented with confidentiality agreement. Only averages are presented below except turn-over rents. Tesco-Kipa signed for Hypermarket unit . Occupancy is assumed 100% for Hypermarket (23% of total GLA). Koçtaş signed for D.I.Y. Unit. Occupancy is assumed 100% for D.I.Y. (13.8% of total GLA). Movie Theatre is assumed 100% occupied (3.9% of total GLA). Occupancy estimations for other shops are given below (59.3% of total GLA). Expected real vacancy is 2.96% of total GLA.

**Table 4.10 :** Functional dispersion.

FUNCTIONS	AREA m <sup>2</sup>
HYPERMARKET	11,642
D.I.Y.	7,013
ELECTRONICS	3,000
FOOD COURT	1,500
MOVIE THEATRE	2,000
ENTERTAINMENT CENTER	1,000
DEPARTMENT STORE	2,650
FAMILY STORE	3,000
SHOPS (0-300 m <sup>2</sup> )	10,000
SHOPS (300-1000 m <sup>2</sup> )	7,000
SHOPS (+1000 m <sup>2</sup> )	3,000
TOTAL	50,555

The functional dispersion of the mall is focused on large scale hypermarket and D.I.Y. store especially. The city has various shopping malls but the mostly needed missing piece is a large D.I.Y. and hypermarket. Also, the surveys done before the project concept is drawn concludes this fact.

#### **4.3.4 COMPARISON OF THE CASES**

Proceeding all the case studies, there is a possibility to compare all three of them based on the criteria used for the examinations.

The ownership structure is different in all of the cases first of all. This factor affects the land acquisition part immediately. Also, the zoning of all three cases are suitable

for retailing. There was no need for changing, besides, Denizli was the largest area in order to enlarge the project as a mix-use project involving residences, hospital and a hotel. In the case studies, the shopping mall part was examined in detail.

Because the ownership structure is different, the deal progress is different in every case also. Some of the cases are based on partnership ,some on joint venture and some individual investments. The differentiation between the cases are specific and clear.

The financial side of all the projects are structured on the most suitable form for the investors. Some investors put 100% equity in the project without any loan, some has an equity ratio of 25% and the rest is construction loan and some projects had funding from foreign corporations.

The most common criteria in all three cases is the operations part. All of the cases are leased by a mall management and leasing company and it can be stated that this is the most efficient way to increase the occupancies and stabilizing the concept of the mall. (Table 4.11)

**Table 4.11 : Comparison chart.**

	<b>CASE 1 (DİYARBAKIR)</b>	<b>CASE 2 (ADAPAZARI)</b>	<b>CASE 3 (DENİZLİ)</b>
<b>Land assembly&amp;identification</b>	The project land is in the city center, on the main arteries of the city. Transportation is easy. There are residentials in the catchment area.	The project land is in the middle of the closest subdistrict of the city and there are high class residentials around the land.	The land is one of the largest plots in the environment and in the city center. The land is suitable for a mixed use project including a large retail function.
<b>Feasibility</b>	The feasibility study concludes the best use of the land is retail function in the environment.	The feasibility study concludes the best use of the land is retail.	The feasibility study provides alternatives for the land and there is a large retail function among all alternative scenarios.
<b>The deal progress /acquisition</b>	Land belongs to the developer and the project is developed by the owner.	Land belongs to the local Municipality. A joint venture is formed between the developer and the Municipality.	Land belongs to a company and the developer acquired the land slightly less than the market price.
<b>Drawings &amp; concept design</b>	The concept design is specified based on the feasibility and the environmental purchasing power.	The concept design is concluded based on the feasibility and the high class residentials in the environment is evaluated for the target visitors.	The concept design is stated evaluating the other functions in the project because the first catchment area of the mall is the residential units of the project.
<b>Financing the project</b>	Financial support for the project is provided by the developer himself. The developer puts 100% equity in the project. There was no land costs.	Financial support for the project is provided by the financial corporations based on a construction loan and the developer put an equity of 25% of the development costs. The land costs are eliminated.	Financial support for the project is provided by the financial corporations and funds because the scale of the whole project is large enough for the city. The equity that the developer put into the mall project is around %30.
<b>Operations; center management and marketing</b>	Leasing and management of the mall is provided by a professional operator.	Leasing and management of the mall is provided by a professional operator.	Leasing and management of the mall is provided by a professional operator.

## 5. CONCLUSION AND RECOMMENDATIONS

Proceeding the overall case studies searched in detail, there are many facts that come out from each case.

**Table 4.12 :** Comparison results.

	COMPARISON RESULTS
Land assembly&identification	The most efficient type is to develop the project on a public land.
Feasibility	The feasibility process for the three cases are similar to each other. The zoning requirements for all cases are commercial so there was no need for zoning changes.
The deal progress /acquisition	The most efficient deal type is formation of a joint venture with a public association. The land cost is minimized and the legal procedure costs are eliminated.
Drawings & concept design	The concept design and drawings for all three cases are based on the environmental factors and the feasibility studies made.
Financing the project	The most efficient financing for the retail projects is the loan provision of financial corporations on long-term basis.
Operations; center management and marketing	Without any doubt, the success and value of a retail project depends on the last step, leasing and management. By the help of a professional operator company, the mall can keep their occupancy stable and reliable for the third party investors.

The aim of the study is to find out the steps where and at which point the land development process of different projects in different cities differentiate from each other. The differentiations between each case on development process basis are especially focus on land assembly and acquisition process. In Diyarbakır case, land ownership belongs to a single person, in Adapazarı there is a joint venture formed for the ownership of land belongs to the Municipality and in Denizli case, the land is acquired from a corporation by a REIT.

All these ownership differences effects the acquisition and development stage of the projects. If the ownership belongs to a single person who will develop the project on the land himself, then the acquisition and deal process is passed on immediately. This ownership type provides flexibility in development and making decisions on the project.

In the second case, the land belongs to the local Municipality and there is a joint venture between the Municipality and the developer in order to minimize the land cost in the cash flow calculations. In this structure, the land stays in the ownership of the Municipality and the developer studies on a feasibility on the land. If the highest and best use of the land is commercial, then the best function is stated. In this case, the best function to be developed on the land is a shopping mall. The project is drawn and the concept is designated in order to state the sharing percentage of the project between the parties.

The deal progress is the most important step for the developer because the result of the deal states the profit margin of the developer on the other hand. The most probable and logical way of sharing the project is to share the ownership of stores in a mall. After the sharing, the next step is the construction and leasing phase. The Municipality does not involve in the construction or leasing costs for the Project but helps the developer with the legal process costs such as architectural approvals, construction permissions, licences or the zoning plans. The cost of legal procedures are a reasonable part of the cash flow and a partnership with Municipality decrease this factor significantly.

In the last case, the land is acquired directly from the owner and there is a deal progress between the buyer and the seller. The buyer's hand is powerful than the

seller because the Project that will be developed on the land also helps the environment to develop and the prestigious Project adds value to the city also. The developer is a reliable and accredited company so that there is a minimum risk for the Project to fail. From the seller side, the land is precious compared to the similar plots around the city and they want to make a reasonable deal. Also the location of the land is in the city center and a very well-known land that belongs to a textile facility of the government. The result of the process is a good deal so that the land is acquired for a less unit price than the similar plots and it became possible for the land cost to decrease in the cash flow compared to the feasibility done before the acquisition.

The feasibility, drawings & concept design, construction and the leasing steps are tend to be similar in all of three cases. In each case, there are similar costs for the studies and it can be concluded that if the Project is developed by a professional developer, the costs are minimized as much as they can be. The only substantial difference occurs in construction part, which depends on the topography of the land and the infrastructural works that have to be done.

The leasing and management is also vital for a retail property because the value of the Project depends on the success of leasing; the minimum vacancy brings the maximum reliability for the project. The Professional mall management&leasing companies (operators) provide highest occupancy for a retail Project. In some cases, the international brands would not want to take place in a mall that they do not find attractive but the operator company forces the brand to take place there by black mailing the brand for providing a place in a mall that they really want to take place in. These are some tricks for fulfilling the comaparably risky projects but the system works most of the time.

The differentiation between the steps in land development process in different cities occurs mostly in land assembly and acquisition process and this difference cause the overall project cost to decrease significantly. There is also a financing step that is different in every case but the total cost is not effected by this step as much as the previously mentioned phases.

The mostly recommended advise for the potential retail developers is to find a land that belongs to a public foundation, and in order to minimize the acquisition and legal procedure costs, signing a joint venture agreement between that institution is vital. The eliminated land and legal process costs significantly decrease the expenses so that the profit margin of the developer increases relatively higher than the similar development projects. Also developing a Project in a city that has a low social-economical development level increases the success percentage of the Project because the city needs that development and the people will definitely visit the potential project to spend money and get socialized together. The only hard part of developing projects in growth centers is to find financial support. Higher the risk, less the financing support provided.



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